

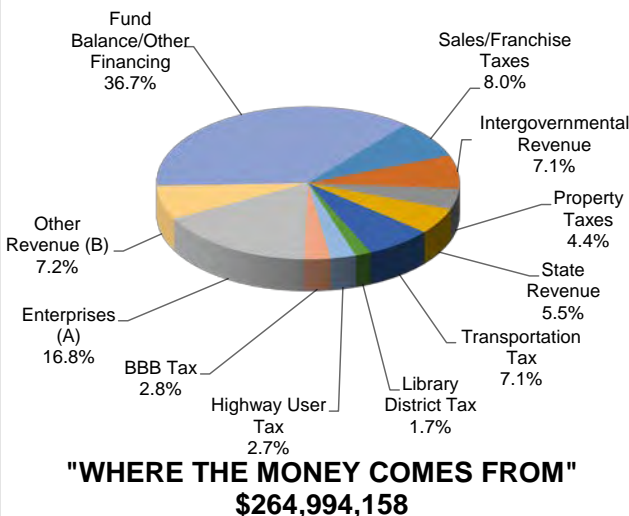
BUDGET OVERVIEW

The City of Flagstaff FY 2017 Financial Plan presents a fiscally sound and balanced budget that maintains the integrity of the City's financial condition while still meeting the service level demands of a community that expects quality services. The Financial Plan balances not only financially, but also equally as important, balances the allocation of resources among operating requirements, capital needs, debt burden and strong reserves for future needs and contingencies.

This section briefly describes the documents *Format and Process*; *Assumptions and Strategies* which formed the working parameters of the budget development; *Fund Summaries*; highlights of *Appropriations*, *Revenues* and *Capital Improvements Plan (CIP)* for FY 2017; and *Debt Structure*, which are the operating framework of the Financial Plan.

FINANCIAL RESOURCES AVAILABLE

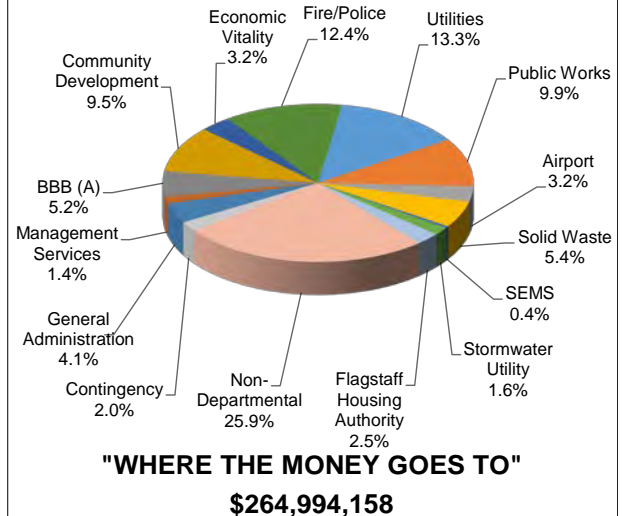
Sales/Franchise Taxes	\$	21,183,310	8.0%
Intergovernmental Revenue		18,846,780	7.1%
Property Taxes		11,612,535	4.4%
State Revenue		14,673,071	5.5%
Transportation Tax		18,912,924	7.1%
Library District Tax		4,465,820	1.7%
Highway User Tax		7,149,600	2.7%
BBB Tax		7,373,000	2.8%
Enterprises (A)		44,634,723	16.8%
Other Revenue (B)		19,179,893	7.2%
Fund Balance/Other Financing		96,962,502	36.7%
	\$	264,994,158	100.0%
Enterprises (A):			
Water	\$	16,986,426	
Wastewater		10,632,154	
Airport		1,801,965	
Solid Waste		11,581,437	
Sustainability and Env Mgmt		993,288	
Stormwater Utility		1,610,453	
Flagstaff Housing Authority		1,029,000	
	\$	44,634,723	
Other Revenue (B):			
Licenses and Permits	\$	1,921,680	
Vehicle License Tax		2,788,408	
Charges for Services		2,985,550	
Fines and Forfeits		3,298,980	
Investment Earnings		843,025	
Miscellaneous		7,342,250	
	\$	19,179,893	



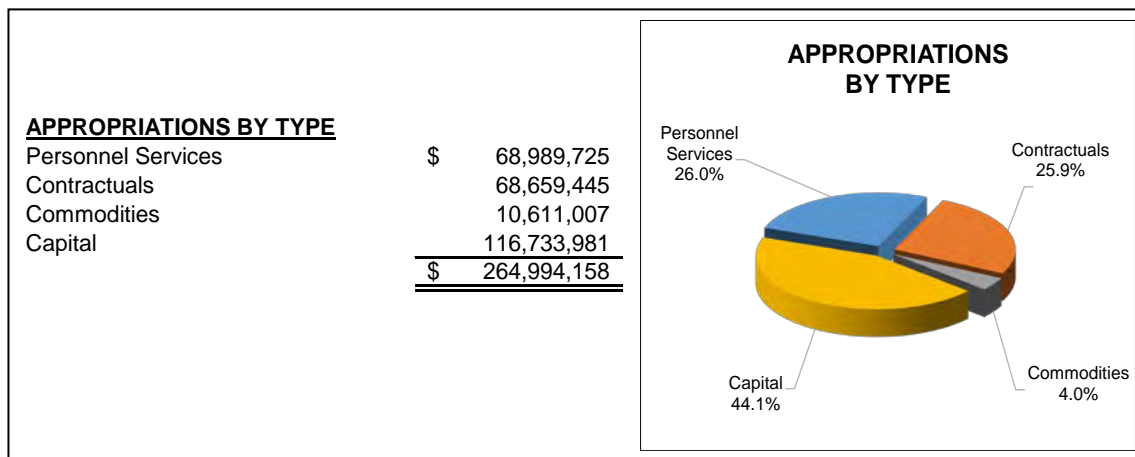
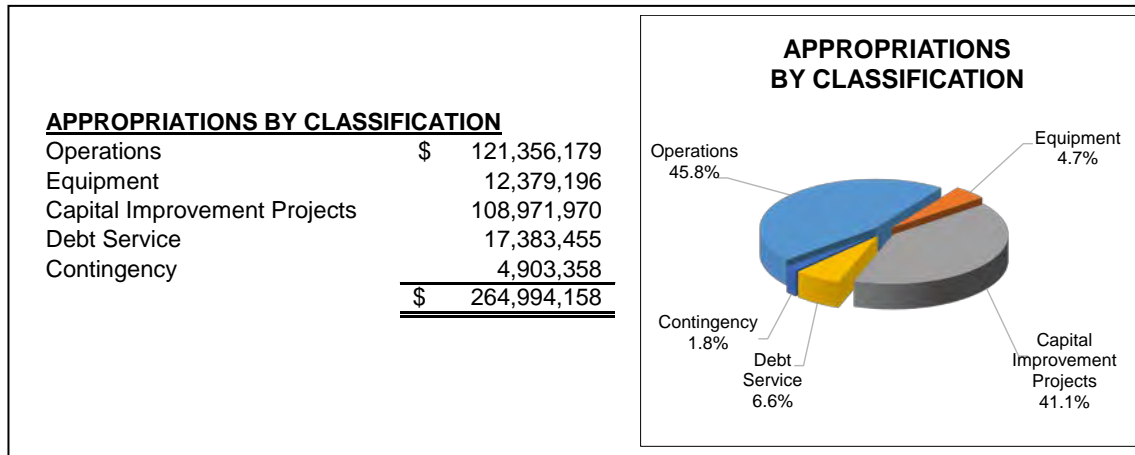
TOTAL APPROPRIATIONS

General Administration	\$	10,973,306	4.1%
Management Services		3,822,504	1.4%
BBB (A)		13,880,241	5.2%
Community Development		25,103,248	9.5%
Economic Vitality		8,597,264	3.2%
Fire/Police		32,884,735	12.4%
Utilities		35,256,194	13.3%
Public Works		26,109,038	9.9%
Airport		8,538,872	3.2%
Solid Waste		14,336,577	5.4%
SEMS		1,112,224	0.4%
Stormwater Utility		4,275,626	1.6%
Flagstaff Housing Authority		6,636,386	2.5%
Non-Departmental		68,564,585	25.9%
Contingency		4,903,358	2.0%
	\$	264,994,158	100.0%

BBB Tax Funds (A):			
Beautification	\$	8,440,171	
Tourism		2,168,077	
Economic Development		1,220,926	
Arts and Science		757,640	
Recreation		1,293,427	
	\$	13,880,241	

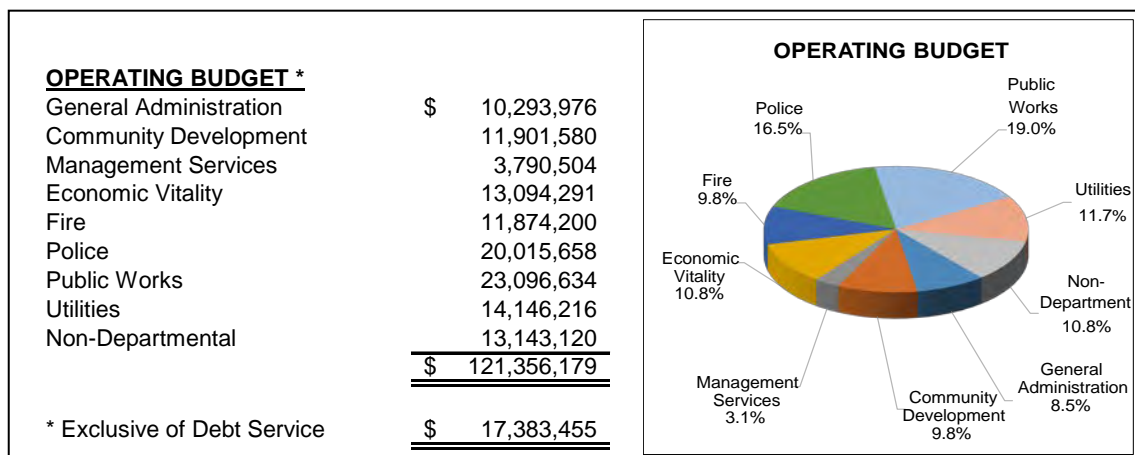


The following graphs depict total appropriations for the FY 2017 budget by major classifications and major types.



OPERATING EXPENDITURES BY DIVISION

City operations include the traditional municipal services that citizens expect their local government to provide. Operating expenditures exclude capital improvements, capital equipment, debt service and reserves. The division budgets are presented to include section budgets and divisional (organizational structure) responsibilities as defined by the City Code.



General Administration activities comprise 8.5% of the budget (\$10.3 million). The services within General Administration provide for the overall management and administration of the City as well as enforcement of municipal laws through legal support and the courts. This group consists of City Manager, City Attorney, City Court, Human Resources, Risk Management and Information Technology.

Community Development (CD) comprises 9.8% of the operating budget (\$11.9 million). The services in this division include CD Administration, Planning and Development Services, Engineering, Capital Improvements, Housing, Flagstaff Metropolitan Planning Organization (FMPO), Community Redevelopment Services and Flagstaff Housing Authority. The services provided by this division meet the current needs of the community and plans for the future.

Management Services comprises 3.1% of the operating budget (\$3.8 million). The division encompasses those activities that provide administrative support and services including financial services, budgeting, purchasing, customer service, grants management and sales tax.

Fire Department services comprise 9.8% of the operating budget (\$11.9 million). The division's public safety programs provide both personal safety in the community with proactive attention to preventable disasters and sense of well-being through timely emergency response.

Police Department activities comprise 16.5% of the operating budget (\$20.0 million). Public safety programs provide personal safety in the community by promoting a community free of crime and assured response in emergency situations.

Public Works activities are provided by eight sections that account for 19.0% of the operating budget (\$23.1 million) excluding debt service requirements for streets of (\$675,000). The services provided include: recreation services, solid waste operations, environmental management services, sustainability, maintenance of all public facilities and public infrastructure including streets, parks and fleet services.

Economic Vitality activities comprise 10.8% of the operating budget (\$13.1 million) excluding debt service requirements for Airport (\$260,000), Business Incubator (\$260,000) and Parking District (\$90,000). The division includes the following sections: Community Investment, Tourism and Visitor Center, Airport, Arts and Science, Urban Design, Streetscape, Parking District and Economic Development. In addition, the division includes the operations of the City/County public library system.

Utilities comprise 11.7% of the operating budget (\$14.1 million), excluding \$4.1 million in debt service requirements. There is one administrative section responsible for management of water, wastewater, reclaimed water and stormwater activities. Five operating sections within water operations and three sections within wastewater operations provide services that promote a clean and healthy community by providing a safe water supply and proper waste disposal. There is also one section for Reclaimed Water. The Stormwater Utility is also included here, inclusive of the Spot Improvement Program, Drainage Program, the Rio De Flag project and Engineering and Master Planning.

Non-Departmental operations comprise 10.8% of the budget (\$13.1 million) exclusive of \$11.9 million in debt service. The Council and Commission, Transit, Special Assessment and Non-departmental budgets account for expenditures that benefit City operations as a whole.

BUDGET FORMAT AND PROCESS

The budget and financial plan for the City of Flagstaff is the policy document that reflects the goals and objectives of the City Council. These goals and objectives are implemented through the policies and priorities established by the Council which were provided by recommendations from the various Boards and Commissions appointed by Council. The Office of the City Manager is then responsible for implementing these policies and priorities utilizing the allocation of available financial resources. The annual review process provides the community an opportunity to evaluate the services provided to the citizens of the community. Programs are identified, evaluated and the scope of service to be provided is defined. The staffing level needed to provide the service level deemed appropriate by Council is then determined. Additionally, funding requirements and level of effort to be provided are established.

Format

The Division Detail presents each operating activity at the section level. It includes each section's *Mission, Program Description, FY 2016 Accomplishments, FY 2017 New Initiatives and Goals, Performance Measures, and Financial Summary*. The performance measures look at the efficiency and/or effectiveness at the program level.

To assist the City Manager in the management of the resources expended by the municipality, the budget also serves as an operational guide. The operating budget presentation includes, for comparative purposes, the *Actual Expenditures for FY 2015, Estimated Expenditures for FY 2016, and the Adopted Budget for FY 2016 and FY 2017*. Expenditures are shown by category and program. The comparatives in the Financial Summaries section are presented at the fund level and the division level to aid section and program managers in budget tracking and accountability.

Categories presented are:

- Personnel Services (salaries, fringe benefits, internal labor, et al.)
- Contractual (professional services, utilities, maintenance, rents, debt service, et al.)
- Commodities (small equipment, parts, office supplies, operating supplies, et al.)
- Capital Outlay (professional services, land, buildings, street, water and sewer construction, equipment, et al.)

Fund, Division and Section Structure

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose, is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

Within each fund there may be several divisions. Divisions also may encompass several funds. The division level is the legal level of budget authority.

Divisions are groups of sections that serve a similar function within the City. In addition, within each section are programs, which capture all expenditures, related to an activity, cost center or location of operation within a section.

The following table represents the structure for the City.



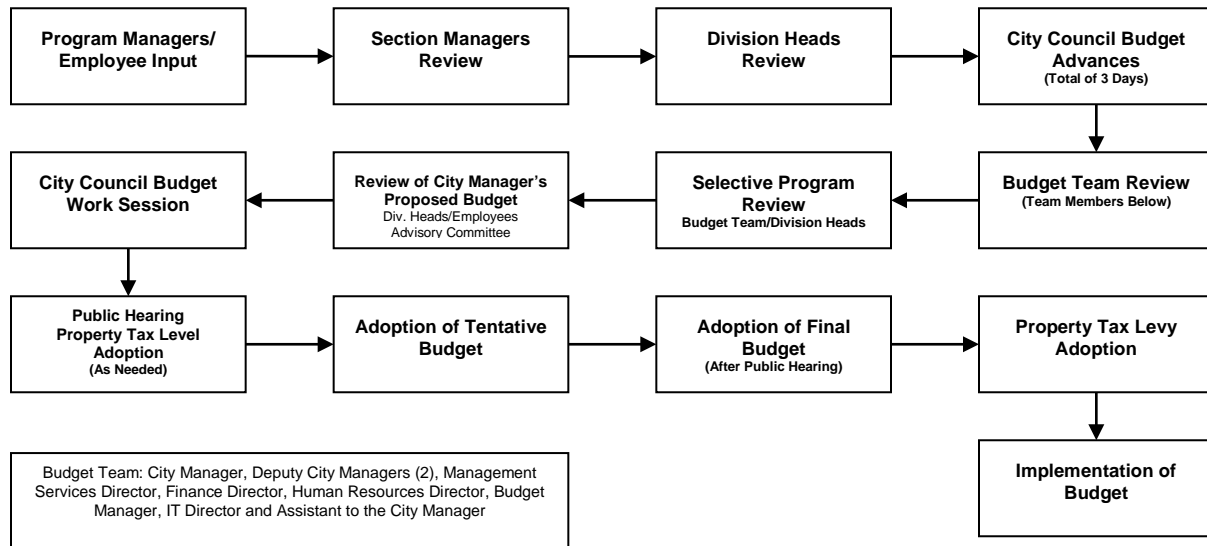
(Flagstaff Convention and Visitor Bureau)

RELATIONSHIP BETWEEN FUNDS, DIVISIONS AND SECTIONS			
FUND TYPE	FUND	DIVISION	SECTION
GOVERNMENTAL (All Modified Accrual Accounting)			
GENERAL	General *	City Manager	City Manager
		Human Resources	Human Resources
		Risk Management	Risk Management
		Information Technology	Information Technology
		City Attorney	Legal
		Municipal Court	Municipal Court
		Management Services	Management Services Revenue Purchasing Finance
		Community Development	Community Development Administration Capital Management Planning and Development Engineering Housing
		Fire	Fire Operations Fire Grants
		Police	Police Operations Police Grants
		Public Works	Public Works Administration Parks Fleet Services Cemetery Facilities Maintenance USGS Campus Recreation Services
		Economic Vitality	Community Investment
		Non-Departmental	Council and Commissions Real Estate Proceeds Non-Departmental
SPECIAL REVENUE	Library	Economic Vitality	Library City Direct Library County Direct Library Grants and CountyWide Projects
	Highway User Revenue *	Public Works	Street Maintenance Transportation Construction Street Construction
	Transportation *	Community Development	4th Street Overpass Street Improvements Safety Improvements
		Non-Departmental	NAIPTA - Transit Transportation
	Flagstaff Urban Trail System	Community Development	Flagstaff Urban Trail System
	BBB - Beautification	Economic Vitality	Beautification Beautification - Capital Improvements
	BBB - Economic Development	Economic Vitality	Economic Development
	BBB - Tourism	Economic Vitality	Tourism Visitor Services
	BBB - Arts and Science	Economic Vitality	Arts and Science
	BBB - Recreation	Public Works	BBB - Recreation Projects
	Housing and Community Service	Community Development	Community Housing Services Community Housing Grants Community Development Block Grants
	Metropolitan Planning Organization	Community Development	Flagstaff MPO
	EDA Revolving Loan	Economic Vitality	EDA Revolving Loan
	Parking District	Economic Vitality	Parking District
DEBT SERVICE	GO Bond Fund	Non-Departmental	Debt Service
	Secondary Property Tax	Non-Departmental	Debt Service
	Special Assessment *	Non-Departmental	Debt Service
PERMANENT	Perpetual Care	Non-Departmental	Perpetual Care
CAPITAL PROJECTS	GO Capital Projects Fund	Non-Departmental	General Fund Capital Projects Core Services Facility Flagstaff Watershed Protection
	MFC Bond Capital Project Fund	Non-Departmental	MFC Bond Capital Projects Capital Project Court Facility
PROPRIETARY (All Modified Accrual Accounting)			
ENTERPRISE	Utilities *	Utilities	Utilities Administration Water Production Water Distribution Water Resource Management Utilities Engineering Services Regulatory Compliance Wastewater Treatment - Wildcat Plant Wastewater Treatment - Rio Plant Wastewater Collection Reclaimed Water Water Capital Wastewater Capital Improvements Reclaimed Capital Stormwater Capital - Rio De Flag Stormwater Utility
	Airport *	Economic Vitality	Airport Operations Airport Capital Projects
	Solid Waste *	Public Works	Solid Waste - Landfill Solid Waste - Collections Solid Waste - Capital Improvements
			Sustainability Environmental Management
	Flagstaff Housing Authority	Community Development	Flagstaff Housing Authority

* Major Funds based on the FY 2015 CAFR

PROCESS

Budget Process Flowchart:



Presentation:

- The *Transmittal* provides a summary of the key policy issues, priorities and strategies that shaped the budget as framed by the City Manager.
- The *Budget Overview* summarizes financial resources and expenditures along with fund summaries and an overview of selected revenues.
- The *Financial Summaries* include various schedules utilizing revenue and expenditure classifications and tax levy information in accordance with state reporting requirements as mandated by statute. Expenditures are reported at both the fund level and the division level for operational control purposes.
- The *Division Detail* provides both narrative and financial data for the City's divisions. The budget commentary provides an explanation of significant budget changes.
- The *Capital Improvement* section lists projects, costs and funding sources in the Capital Improvement Plan (CIP).
- The *Appendix* includes detailed personnel schedules, budget resolution, property tax ordinance, glossary and acronyms.

BUDGET CALENDAR

December 8-9	Fall Council Budget Advances
December 16	Budget Module available to all Divisions
January 12	Capital improvement and equipment requests reviewed by Capital Improvements and Purchasing
February 11 & 16	Winter Council Budget Advances
February 29 to March 11	Review with Division Directors and the Budget Team
April 26 - 27	Council Study Sessions Proposed Budget available (Operating & Capital) to public
June 7	Tentative budget hearing (public) and Tentative budget adoption
June 21	Final budget hearing and Final budget adoption
July 5	Adopt Property Tax Levy

Review and Approval:

Issues presented during the review and approval period include discussion topics of the Council retreats. The winter retreat was held in February, to give City staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in budget priorities. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The Council holds work sessions in April. The Council reviews and discusses all personnel recommendations, capital equipment recommendations and the capital improvement plan. The Council arrives at a consensus for all decisions needed. The study sessions provide the opportunity for City management, departments and the public to offer information and recommendations to the City Council.

The proposed budget is presented to Council for tentative adoption on or before the third Monday in July. One public hearing is held on the content of the budget. Final adoption will occur on June 21, 2016. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues and expenditures that cannot be accurately determined when the budget is adopted (e.g., grants). The resolution adopting the annual budget requires Council authorization for any expenditure from contingencies as well as transfer of budget authority between departments.

Adoption:

The City operates under the State Expenditure Limitation with a permanent adjustment to the base. The first adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board and Beverage Tax. Flagstaff is not a Home Rule city. Alternative (Home Rule) Expenditure Control municipalities require voter approval every four years.

The City received voter approval in the May 2006 general election for a second adjustment to the expenditure limitation base. This permanent adjustment was effective for the FY 2007 budget year.

The Adopted Budget reflects the total funds appropriated (\$264,994,158). Certain exclusions are allowed by the state (e.g., bond proceeds, debt service, grants) in computing the Expenditure Limitation (\$145,156,751) and this total cannot be exceeded.

Budget authority can be transferred between line items within a section. At year-end, division budgets are reviewed and budget authority is transferred from contingencies by resolution as necessary. Council can also amend total appropriations for a fund during the year by resolution as long as there is a corresponding increase/decrease in another fund so that the total appropriation is not exceeded.



Downtown Flagstaff (Flagstaff Convention and Visitors Bureau)

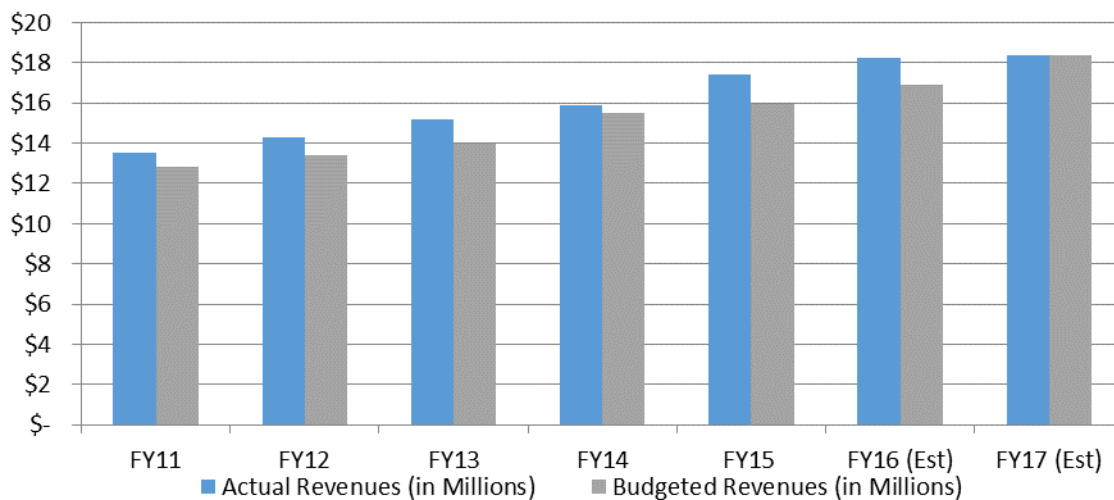
ASSUMPTIONS AND STRATEGIES

ECONOMIC OVERVIEW AND REVENUE FORECAST

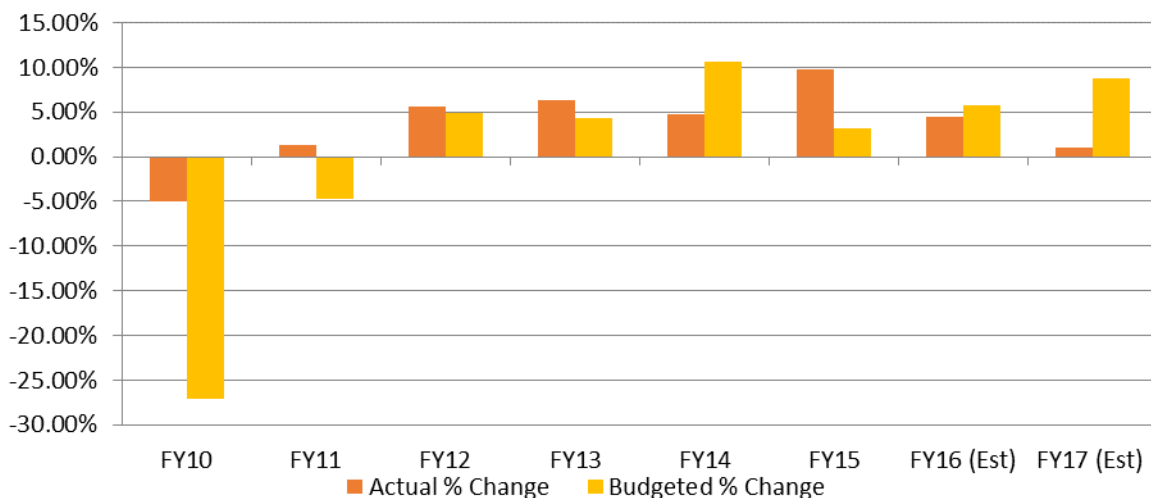
The City of Flagstaff continues to see improvements in the economy. We have seen small to moderate improvements each year since FY 2010 in our local and state shared sales tax revenues. The economic analysts for our local and state region estimate there will be continued growth in the local economy over the next few years.

The City collects three different sales taxes. The first is a 1% tax on all general sales, except for food. This is a general purpose tax that benefits the General Fund. The City of Flagstaff is the only city left in the State of Arizona that has a sunset clause on the general sales tax. This tax must go before the voters every ten years to be validated. Voters approved an extension of the tax in May 2010 which expires in 2024. From FY 2016 budget to FY 2017 budget, we anticipate an 7.9% increase.

General Fund Sales Tax Revenues



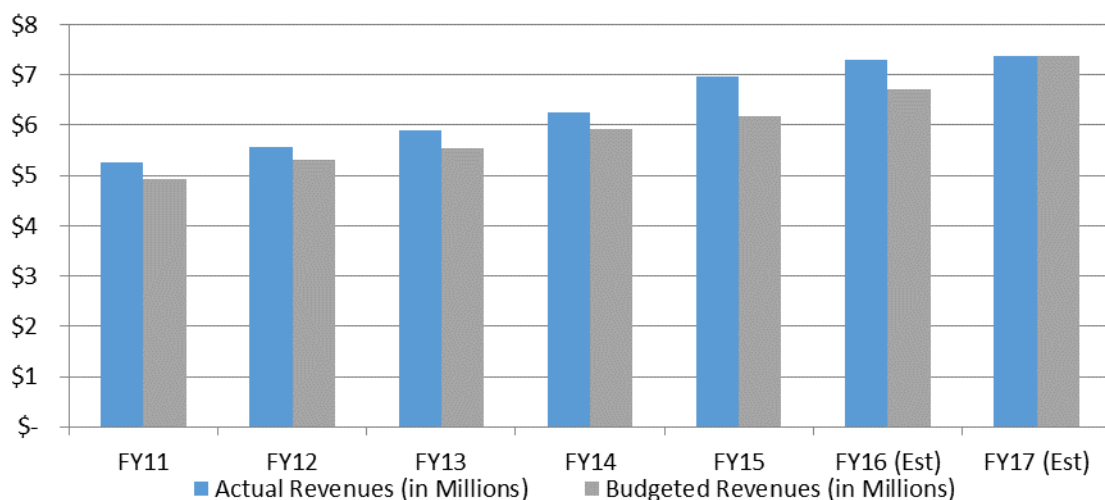
General Fund Sales Tax Revenues (% Change)



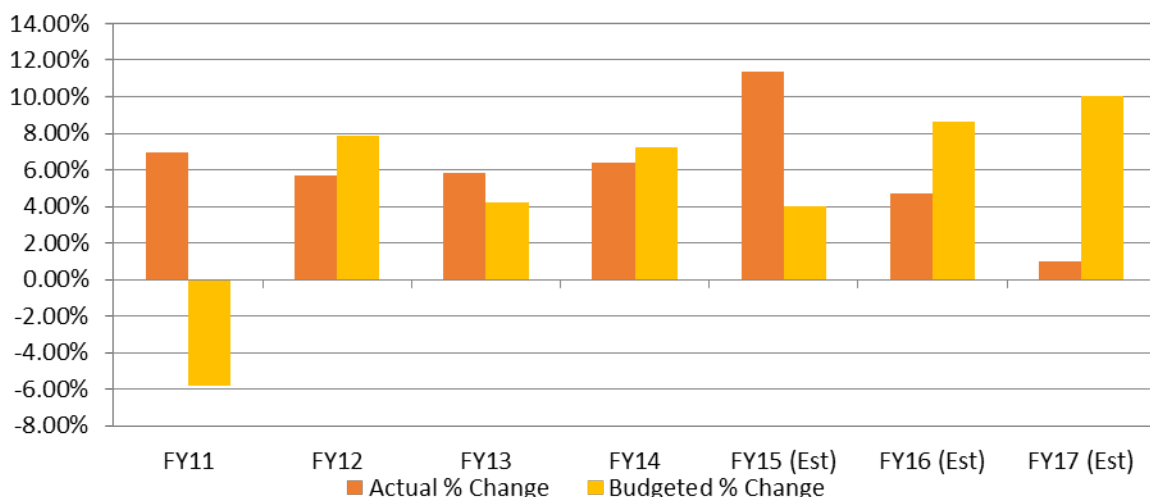
The second sales tax is a 1.051% sales tax on the same types of general sales; however, the tax is restricted in use to certain transportation projects. The previous rate was 0.721% but voters approved a 0.33% increase in November 2014 with an effective date of January 1, 2015. A majority of the transportation tax components expire in 2020. As the expiration date for this tax nears, the city will reevaluate the transportation needs of the community to propose how any future transportation tax is allocated. As similar sales are taxed with this source, revenue projections follow the same trends as the general sales tax.

The third sales tax is a Bed, Board and Beverage (BBB) tax that collects an additional 2% for hotel/motel and restaurant/bar transactions. This tax is restricted in use to certain economic, arts, beautification, recreation or tourism activities. Tourism is a major driver in the local economy and overall sales have been increasing since FY 2015. Revenue in this category is expected to increase approximately \$670,000 or 10% over budgeted revenues. This tax must go before the voters every fifteen years to be validated. Voters approved an extension of the tax in May 2010 with an expiration in 2028.

Bed, Board, and Beverage (BBB) Tax Revenues



Bed, Board, and Beverage (BBB) Tax Revenues (% Change)



State shared revenue consists of both a distribution of sales tax and income tax. These distributions are made based on a city or towns' relative share of population in comparison with all other cities and towns. Except during census years, Flagstaff's population is determined by the Arizona Department of Economic Security based on a number of factors including new homes and student enrollment. The City estimates that FY 2017 state shared revenues will be approximately \$160,000 higher than the FY 2016 budget.

Highway User Revenue (gas tax) funds are projected to be above budget for FY 2016. For FY 2017, the City anticipates that the State will continue to redirect revenues to fund the Department of Public Safety. However, the State budget approved to continue the additional \$30M of HURF revenues to be allocated to cities and counties. The City share is estimated at \$300,000. These revenues are distributed based on a fairly complex Arizona Department of Transportation formula, based in part on the amount of fuel purchased in our region. As fuel prices continue to decrease, we anticipate Flagstaff tourism to increase as we are a popular driving destination for Las Vegas, Los Angeles and Phoenix. These revenues continue to grow with fuel prices low and a steadily growing economy.

Property tax revenues are projected to be flat in FY 2017. This occurs as there is an approximate 18 – 24 month lag in home valuation and property tax assessment payments, as well as primary property taxes are based on limited assessed valuation. The State of Arizona caps the primary property tax revenue increases at 2% on an annual basis. City Council directed staff to use a flat levy on property assessments, meaning to adjust the rate based on assessed values to provide the same level of revenues. Homeowners will realize a two percent rate decrease from \$0.8234 to \$0.8120 per \$100 of assessed value to comply with Council direction. On average, property owners should see no increase in the City primary property tax. The City has the capacity to increase property tax levies by 10% due to holding levies flat the past five years.

EXPENDITURES

In December 2015, divisions were asked to provide a list of their top budget priorities. At the December retreat, based on the information provided by divisions, Council was asked to identify budget priorities FY 2017. Council concluded that the priorities for the FY 2017 budget include: economic growth and development strategies, employee compensation and investment, infrastructure, support and assistance to the most vulnerable members of the population, regional plan implementation and transportation.

At a follow up Council Budget Advance in February, staff provided updated revenue and expenditure projections with focus on opportunities and strategies to advance the Council budget priorities previously listed above. In addition, Council provided direction on potential increased revenue opportunities.

Following the February Advance, Finance completed updates to all five year plans to provide an outlook on revenues and expenditures. The Budget Team then met with each division to discuss their proposed budgets. Divisions were asked to correlate their increased funding requests to the Council's budget priorities and goals. Based on this information, the FY 2017 proposed budget includes a three year plan to transition market based pay for all employees, new positions related to capacity needs, infrastructure, economic development funding, services to support the most vulnerable members of the population and additional appropriations to support existing service levels.

At the final Council Budget retreat in April, Council added additional items into the final adopted FY 2017 budget including ongoing funding for pay increases for temporary staff, public safety overtime and uniform allowance. They also funded the following items on a one-time basis: service partner contracts, Library Sunday hours, after school programs, Sunnyside neighborhood plan and facility contingency fund.

Details of the previous discussions can be found in the City Manager's transmittal letter in the Transmittal section.

FUND SUMMARIES

GENERAL FUND

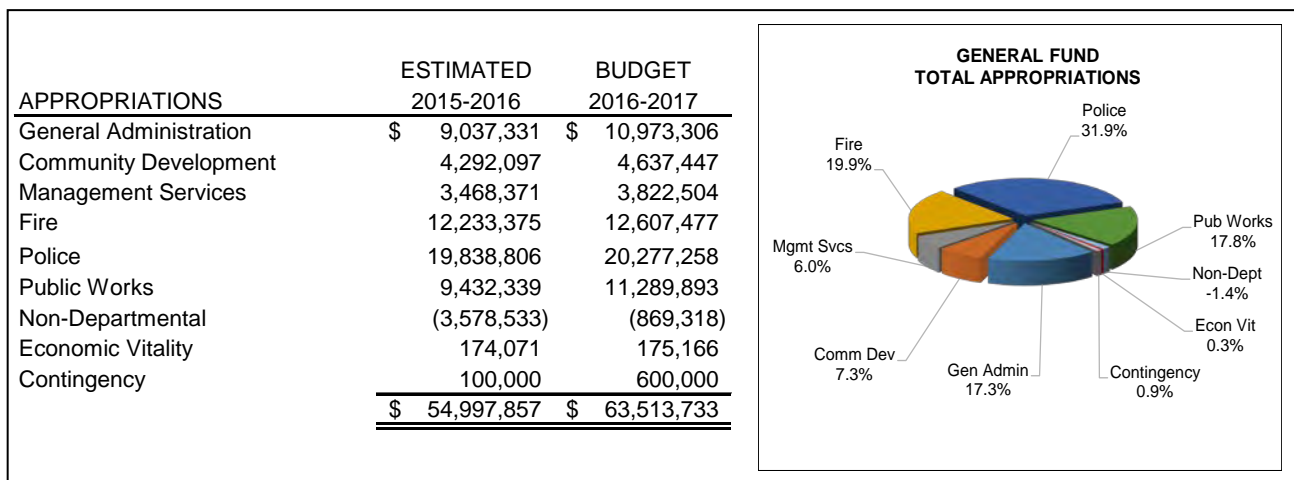
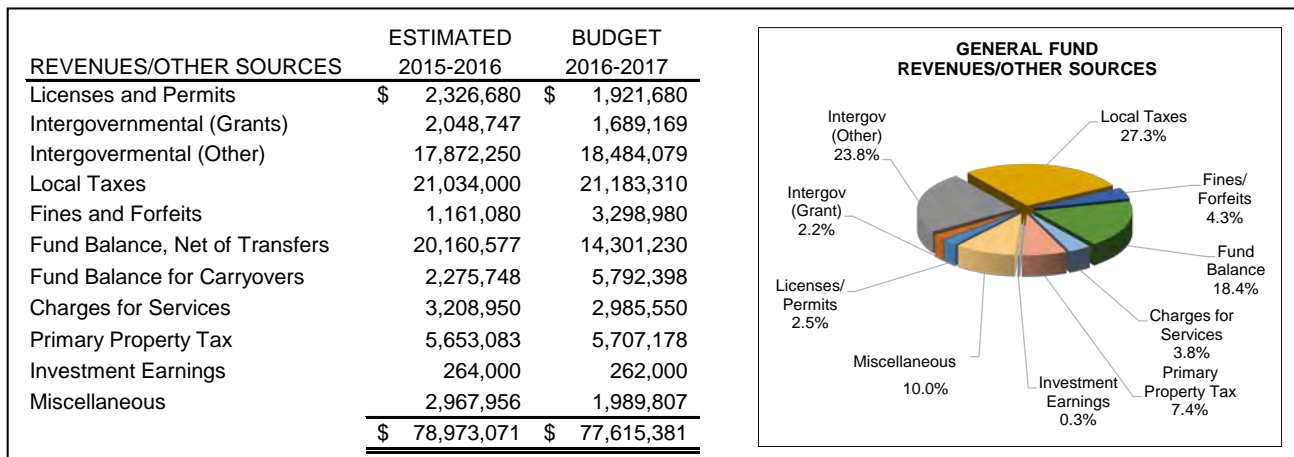
The General Fund includes all City operations, except enterprise activities which are to be self-sustaining, e.g., Utilities, Solid Waste, Sustainability and Environmental Management, Airport, Stormwater; and activities funded from a special revenue source dedicated to that activity. These include the BBB Tax funds, Transportation tax fund, Streets, Library, Housing and Community Services, Metropolitan Planning Organization and FUTS.

Total resources available for expenditures for FY 2017 are \$77.6 million including the estimated beginning fund balance of \$20.1 million. A substantial portion of General Fund resources comes from the following revenue categories: local sales taxes, franchise taxes and intergovernmental revenues. Specific detail including comparative data is shown in Schedule C of the Financial Summaries section and a more detailed review of major revenue categories, including historical trend information, is provided following the fund summaries.

General Fund revenue/other sources compared to the year-end estimates have decreased 1.7%. As the economy shows signs of recovery, the revenues are remaining relatively flat or show slight increases. The fund balance decrease is due to the anticipated completion of several large capital projects.

General Fund total appropriations compared to year-end estimates have increased by 15.5%. The General Fund ongoing revenues and expenses are structurally balanced in the five-year plan. Fund balance is estimated at a minimum of 20.0% of operating revenues over the next five years.

The financial position of the General Fund remains balanced.



SPECIAL REVENUE FUNDS

HIGHWAY USER REVENUE FUND

The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to the cities and counties by the State.

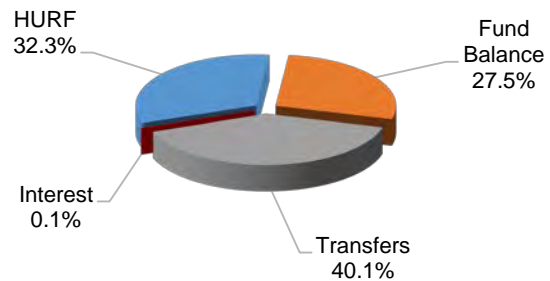
HURF revenues have seen steady growth over the past five years as fuel prices fall and the economy experiences slow continuous growth.

Appropriations total \$20.9 million in FY 2017 and major projects budgeted include the annual pavement maintenance program, Clay Avenue Traffic Calming, 4th Street Bridge over I-40 Design, Industrial Drive Improvement and Butler Adaptive Signal Controls.

REVENUES/OTHER RESOURCES

HURF	\$ 7,149,600
Fund Balance	6,105,914
Transfers (net)	8,904,839
Investment Earnings	6,000
	<u>\$ 22,166,353</u>

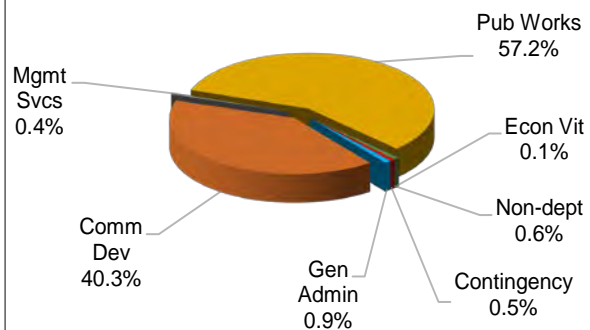
STREET REVENUES/OTHER RESOURCES



APPROPRIATIONS

General Administration	\$ 197,820
Community Development	8,418,573
Management Services	86,123
Public Works	11,973,028
Economic Vitality	17,838
Non-Departmental	121,777
Contingency	100,000
	<u>\$ 20,915,159</u>

STREET TOTAL APPROPRIATIONS



TRANSPORTATION FUND

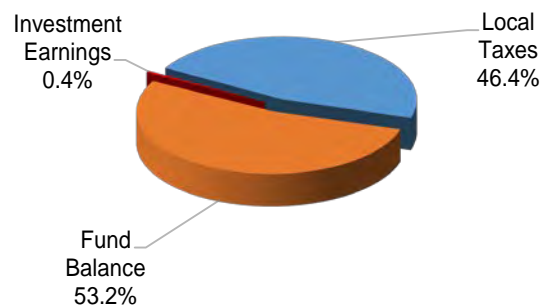
The Transportation Fund was formed in FY 2001 as a result of voter authorization on May 16, 2000 to increase sales taxes to support four transportation issues. The tax increase is valid for twenty years. In FY 2015, voters approved an additional transportation tax for road repair and street safety which is valid through 2035. The sales tax revenue collected for transportation is recorded in this fund. The expenditures related to Transit, 4th Street Overpass and Road Repair and Street Safety are appropriated in this fund. Expenditures related to Safety Improvements and Street Improvements are accounted for in the HURF and FUTS funds. Appropriate transfers are made to fund the various projects that this tax supports.

Projects	Budget FY 2017
	Revenues
4th Street Overpass	\$ 2,879,227
Road Repair and Street Safety	5,938,406
Safe-to-School, Pedestrian and Bike	1,439,614
Traffic Flow and Safety Improvements	3,347,102
Transit Service Enhancements	5,308,575
Total	<u>\$ 18,912,924</u>

REVENUES/OTHER RESOURCES

Local Taxes	\$ 18,912,924
Fund Balance	21,699,730
Investment Earnings	152,000
	<u>\$ 40,764,654</u>

TRANSPORTATION REVENUES/OTHER RESOURCES

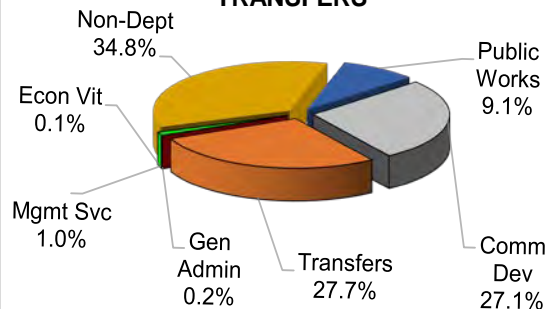


Appropriations total \$23.9 million in FY 2017. Appropriations include \$6.4 million for transit operations, \$3.0 million for debt service and \$11.1 million for road repair and street safety projects. Transfers include \$8.6 million to HURF for safety and street improvements and \$550,000 to fund FUTS projects. The tax rate for transportation is 1.051%.

APPROPRIATIONS/TRANSFERS

General Administration	\$ 58,900
Management Services	339,102
Economic Vitality	3,188
Non-Departmental	11,500,601
Public Works	3,000,000
Community Development	8,963,109
Transfers (net)	9,162,205
	<u>\$ 33,027,105</u>

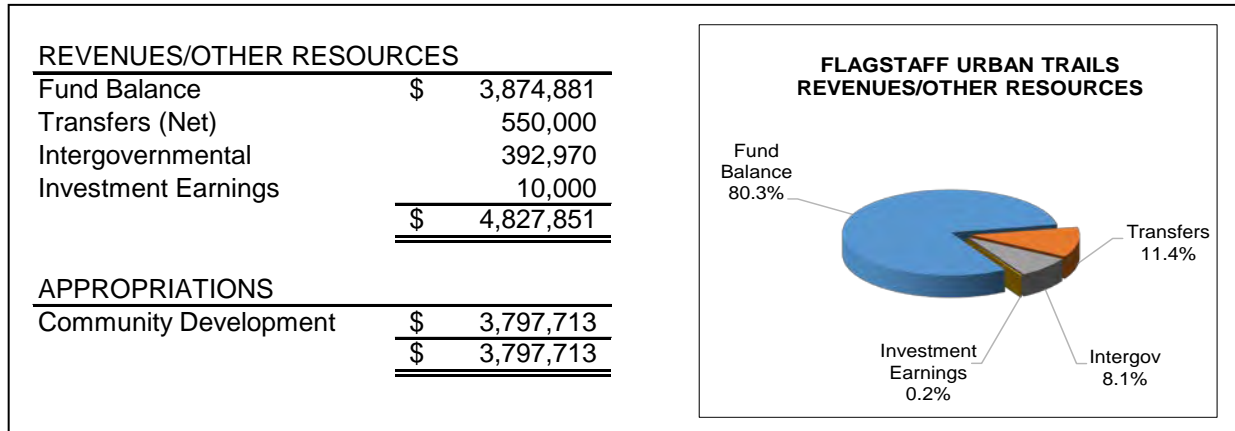
TRANSPORTATION TOTAL APPROPRIATIONS/ TRANSFERS



FLAGSTAFF URBAN TRAIL FUND

Total resources available for FUTS activities are approximately \$4.8 million. Approximately \$550,000 comes from the Safety Improvement Tax and approximately \$390,000 comes from an ADOT grant to help fund the BNSF-Florence/Walnut Underpass.

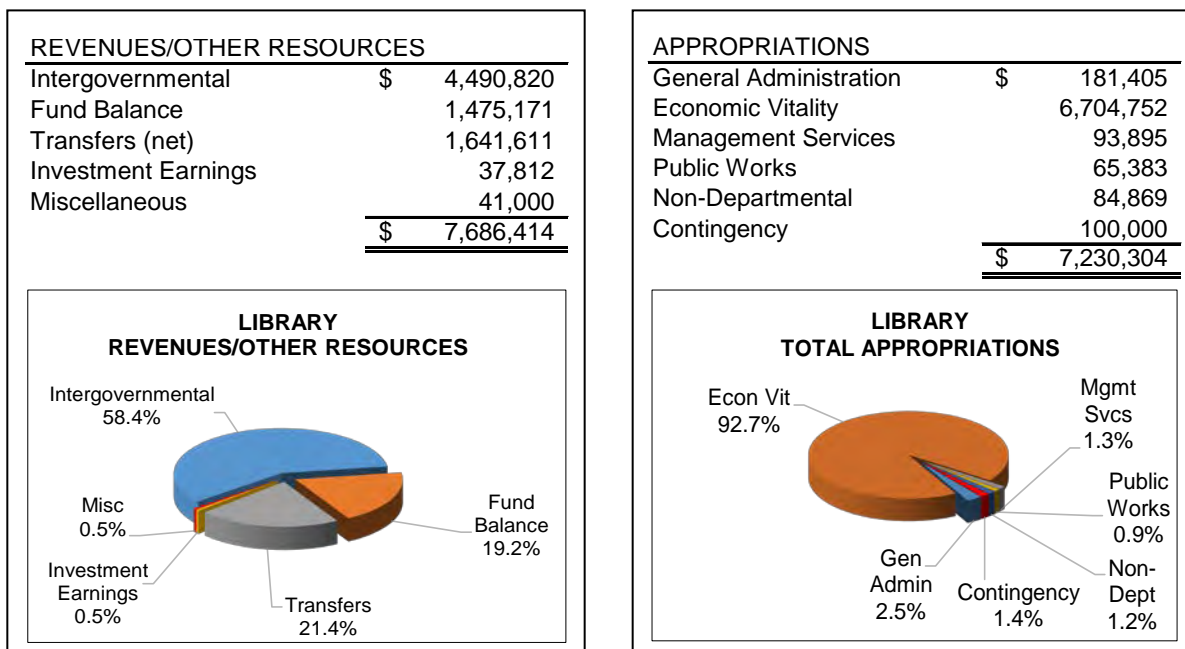
Expenditures in this fund are primarily related to capital improvement projects. The major projects include the Sheep Crossing Trail, Signage Program, Switzer Canyon Trail and BNSF Walnut Florence Underpass. (A full project listing is located in the CIP Section).



LIBRARY FUND

The City operates a joint City-County Public Library which includes auxiliary programs in outlying county locations and a bookmobile service. Approximately \$2.3 million of the funding for library operations comes from the library district tax; with \$0.9 million pass-through to district libraries. An additional \$1.6 million of funding is a transfer from the General Fund to further support the Flagstaff libraries.

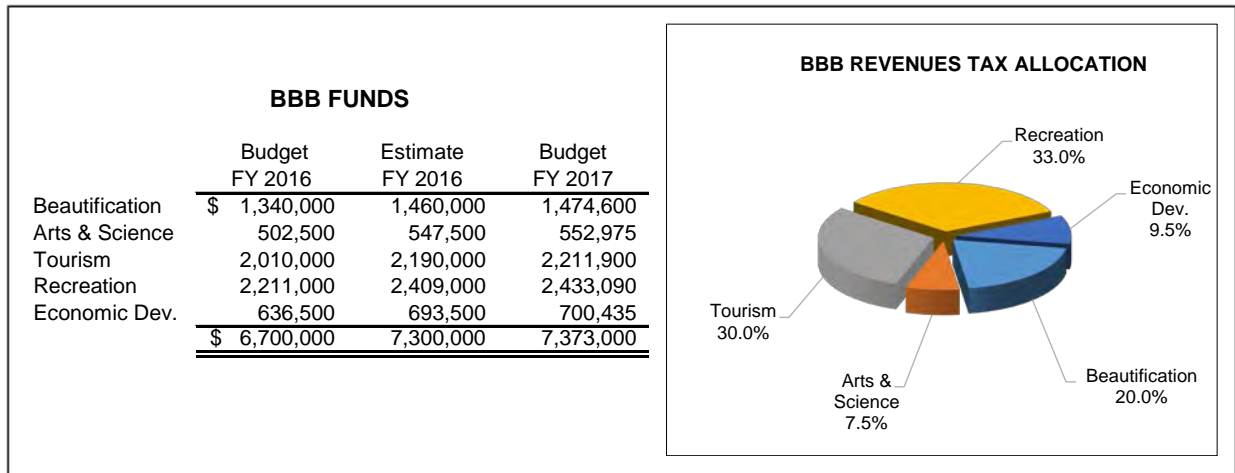
In July 2014, the County, related to district libraries, developed a new funding formula for the distribution of the tax. The formula provides a base amount for all entities. Any adjustments to this base are directed by the Library Council with affirmation by the County Board of Supervisors.



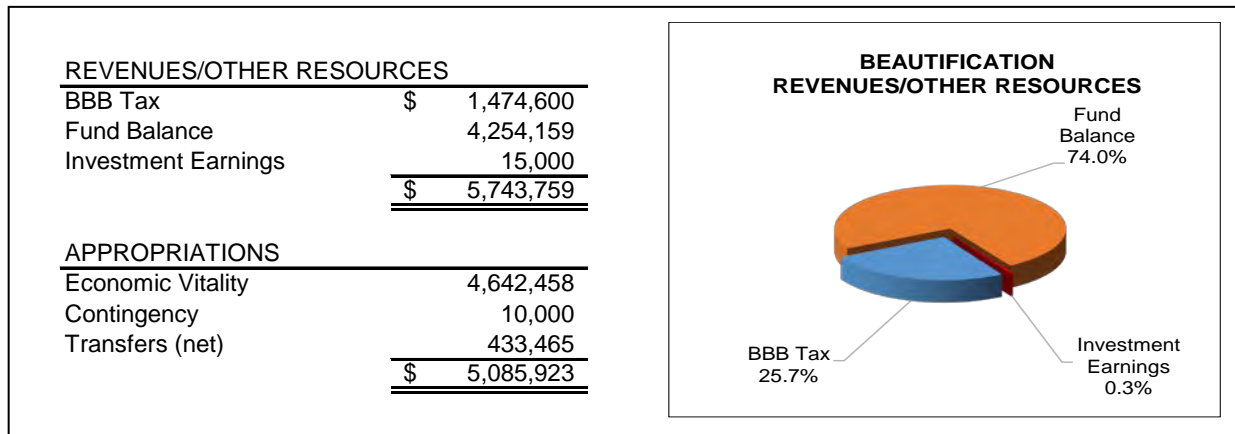
BED, BOARD AND BEVERAGE (BBB) FUNDS

A dedicated 2% bed, board and beverage sales tax collected on the services provided by lodging, restaurants and bars was approved by voters in 1988 with a ten year sunset clause. The dedicated tax was extended by the voters for fifteen years in 1996 and again in the 2010 general election. The BBB tax approved by voters will expire in 2028. The funds are allocated into the following percentages: Recreation 33%; Economic Development 9.5%; Beautification 20%; Arts and Science 7.5%; Tourism 30%.

Revenue for FY 2017 is projected to increase slightly over FY 2016 estimates. Activities funded with the revenues have made operating adjustments necessary to reflect a balanced budget to the increased sales tax receipts and these changes will be reflected within each five-year plan.

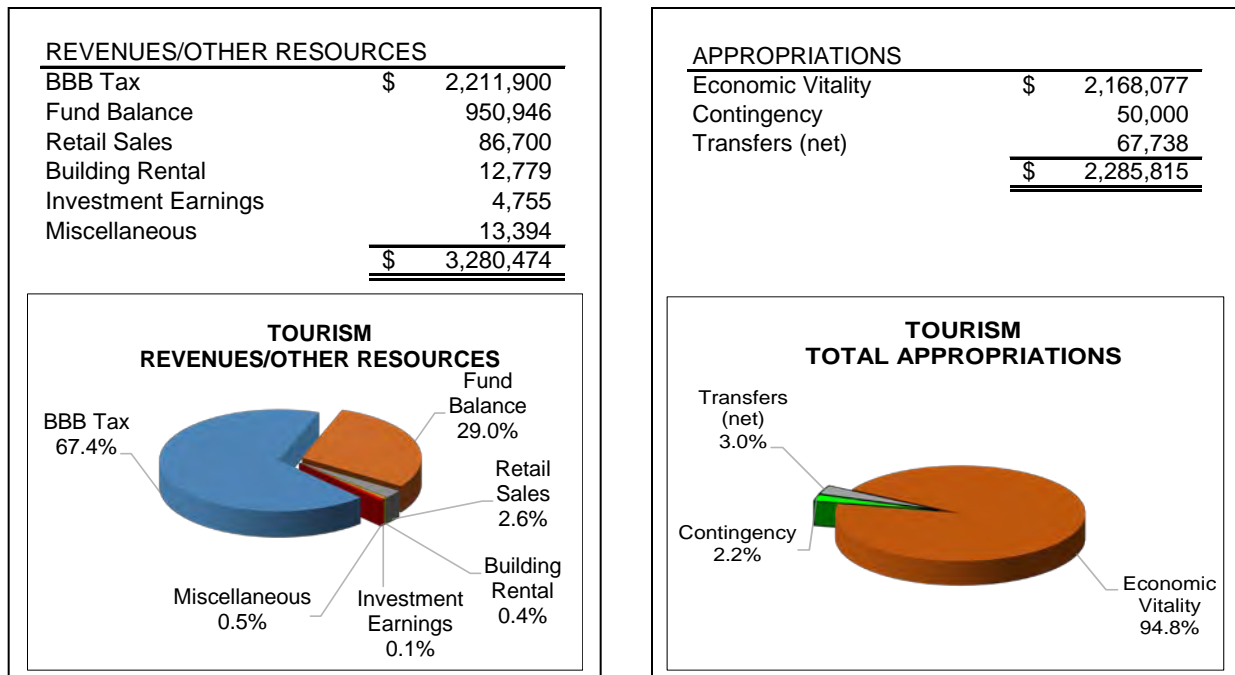


Beautification Fund: Total resources available for Beautification Fund activities amount to \$5.7 million. Expenditures from this fund are primarily for beautification operations and capital improvements in streetscape projects. Some of the major projects include the US 89 medians – Fanning to Marketplace, downtown, Non-Gateway and Buffalo Park parking improvements. There is a \$433,465 transfer to the General Fund primarily for maintenance of streetscapes (a full project listing is located in the CIP Section).

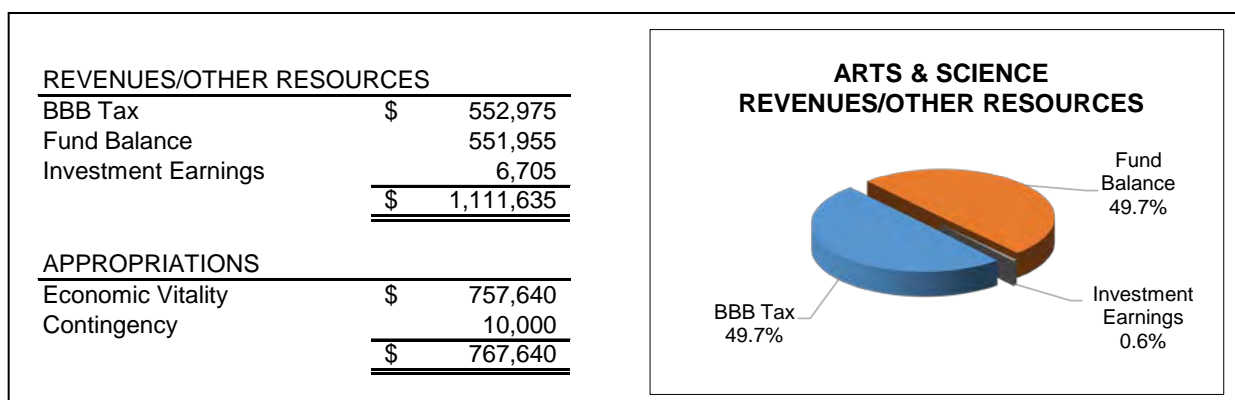


Tourism Fund: Total resources available in FY 2017 are approximately \$3.3 million, of which an estimated \$2.2 million is from the BBB tax. The total appropriations are approximately \$2.3 million, which includes \$1.7 million for Tourism. Tourism includes General Administration, Marketing, Sales, Public Relations and the Film Office. The Visitors Center programs account for \$477,000.

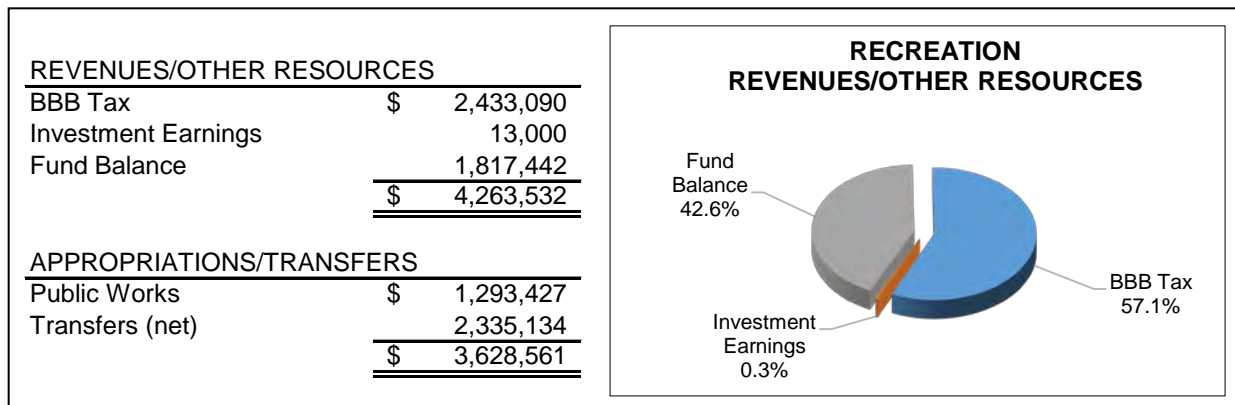
Included in the budget for Tourism is a strategic plan intended to provide guidance in determining markets, promotion directed at these markets and measurement tools. The Visitor Center programs include the Visitor Center (including the gift shop) and Train Station Operations.



Arts and Science Fund: Total resources available for Arts and Science activities are approximately \$1.1 million, including estimated revenues from the BBB tax of \$553,000. Expenditures include: Public Art for \$242,000, Service Partner Contracts for \$450,000 and the Science Foundation for \$25,000.

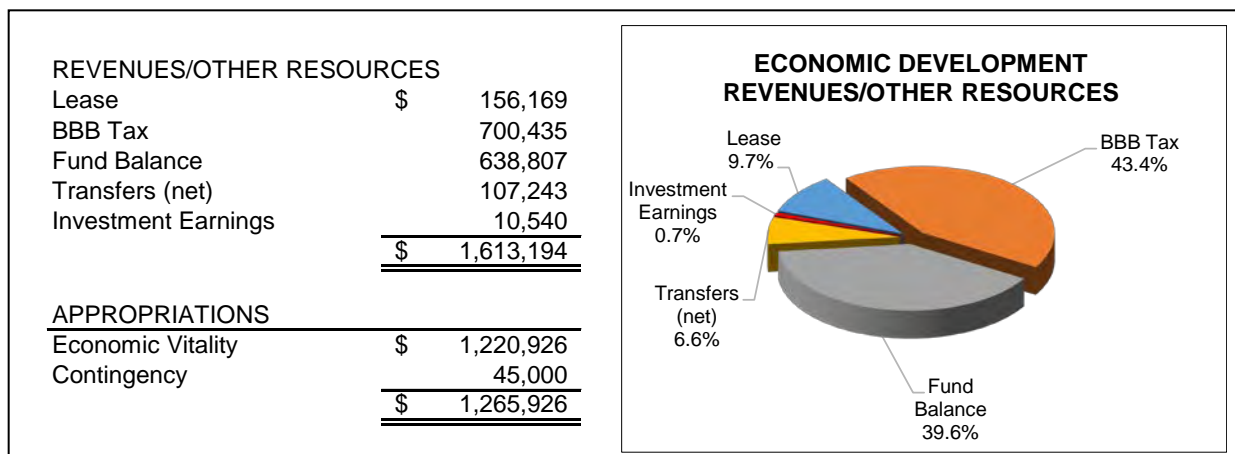


Recreation Fund: There are appropriations in the amount of \$1,293,427 in FY 2017 for Recreation Fund activities and projects. Expenditures in this fund are capital in nature and this fiscal year are for carry forwards for Bushmaster Park, Hal Jensen Recreation Center tennis courts, ice rink, Thorpe Park adaptive playground and surfacing, pavement preservation at various recreation facilities, the addition of a storage area at the Hal Jensen Recreation Center, pool entrance sliding doors at the Aquaplex, repairs to Jay Lively Ice Arena roof and locker rooms and Wheeler Park improvements. Per discussion with City Council in the spring 1996 retreat, Council concluded this funding should support the expansion of existing facilities and the associated maintenance. Over the past five years, the City Council has re-examined the use of these funds and in FY 2017 directs \$878,000 to fund recreational programming, \$1.5 million to fund FUTS maintenance, BBB recreation fields operation and maintenance. These are funded via a transfer to the General Fund.



Economic Development Fund: This fund focuses on business retention and attraction as well as workforce development. In addition, the City funds the Business Incubation Program and the new Innovation Mesa Business Accelerator program, structured to allow university professors and local entrepreneurs to work in a supportive environment to develop ideas into commercial business models.

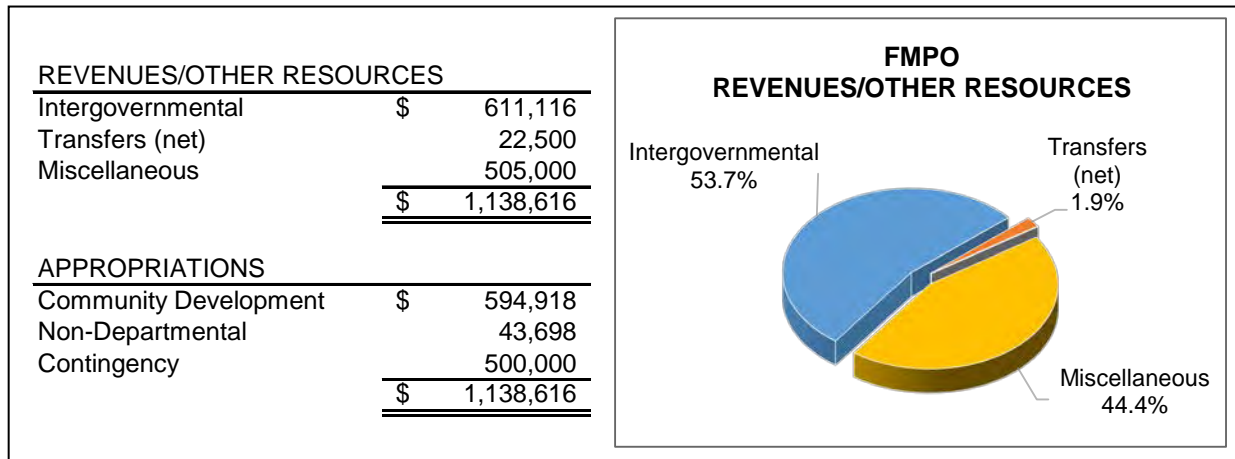
The City will continue to seek targeted industries to relocate to the community. Those industries will be complementary to existing businesses or will be supportive of community goals. Total resources allocated to this effort are approximately \$1.6 million, of which \$700,000 is from the BBB dedicated tax for economic development, lease revenue of \$156,000 and a General Fund net transfer of \$107,243 to support debt service.



Flagstaff Metropolitan Planning Organization Fund

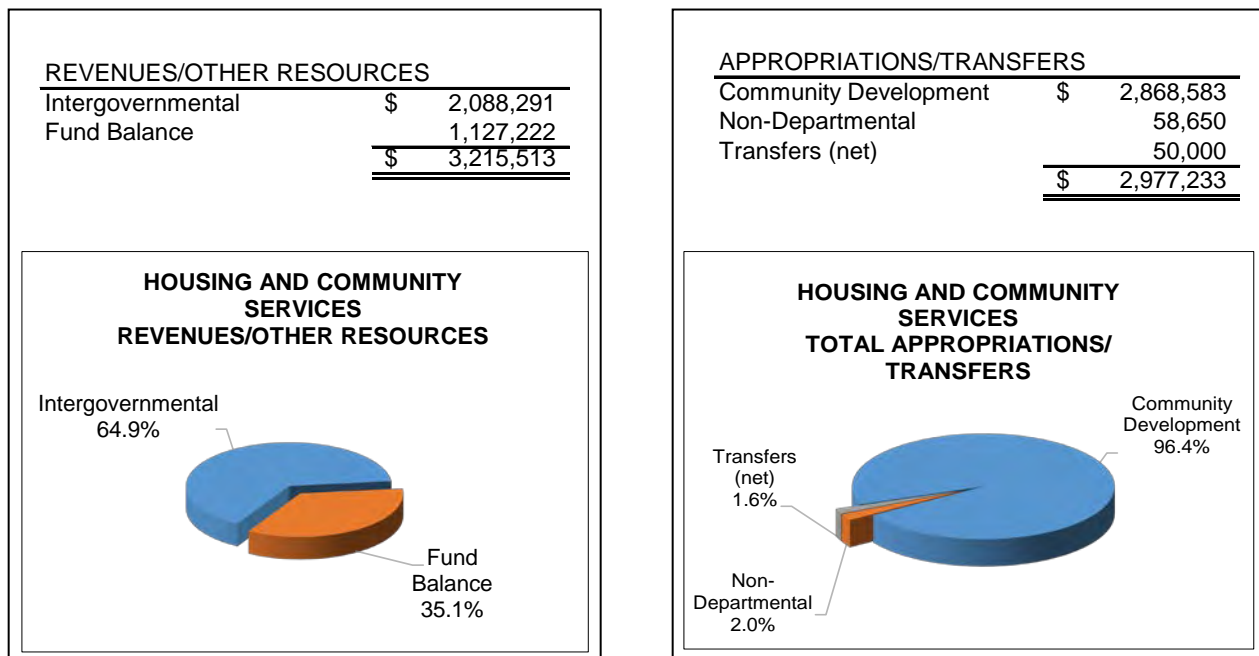
This fund was established to account for funding derived from the areas status as a designated Flagstaff Metropolitan Planning Organization (FMPO). The FMPO receives Federal funding administered through the Arizona Department of Transportation (ADOT).

The City has appropriated \$1,138,616 for this program for FY 2017. This includes operating funds for transportation, transit planning and \$500,000 for contingency.



Housing and Community Services Fund

This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$2.9 million appropriated to this activity for FY 2017. Expenditures in this fund include \$780,000 in State Housing grants, \$899,641 in CDBG grant activities and \$350,000 in County grants.

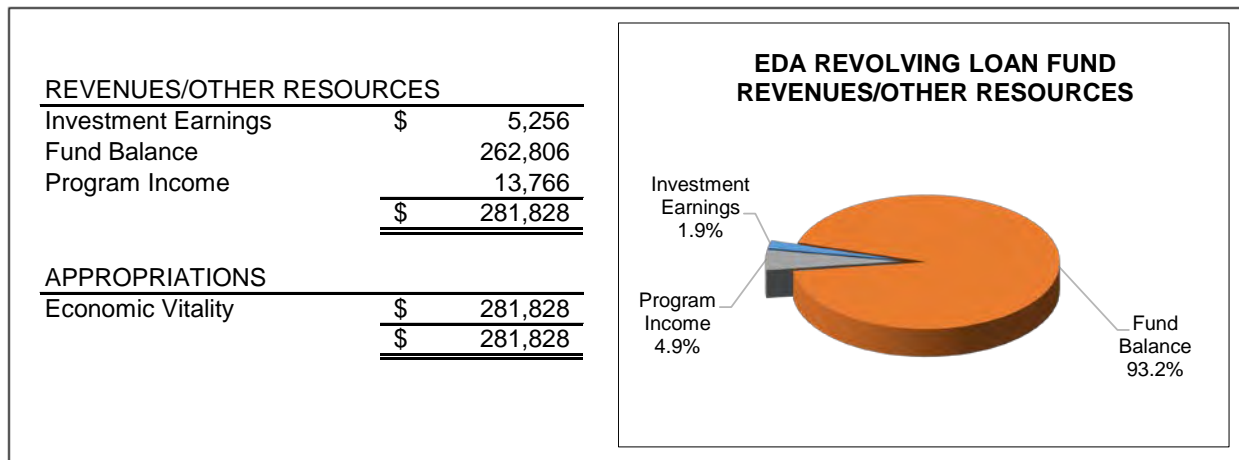


EDA Revolving Loan Fund

On June 30, 2012, Northern Arizona Council of Governments (NACOG) received authorization from the U.S. Department of Commerce Economic Development Administration (EDA) to transfer ownership of the Revolving Loan Fund (RLF) to the City of Flagstaff in an effort to better maximize the benefits and utilization of the RLF.

Via resolution from NACOG, the EDA Revolving Loan Fund portfolio was transferred to the City of Flagstaff for management of loans for the purpose of funding small business concerns. Revenues and expenditures will have a neutral impact to the City budget.

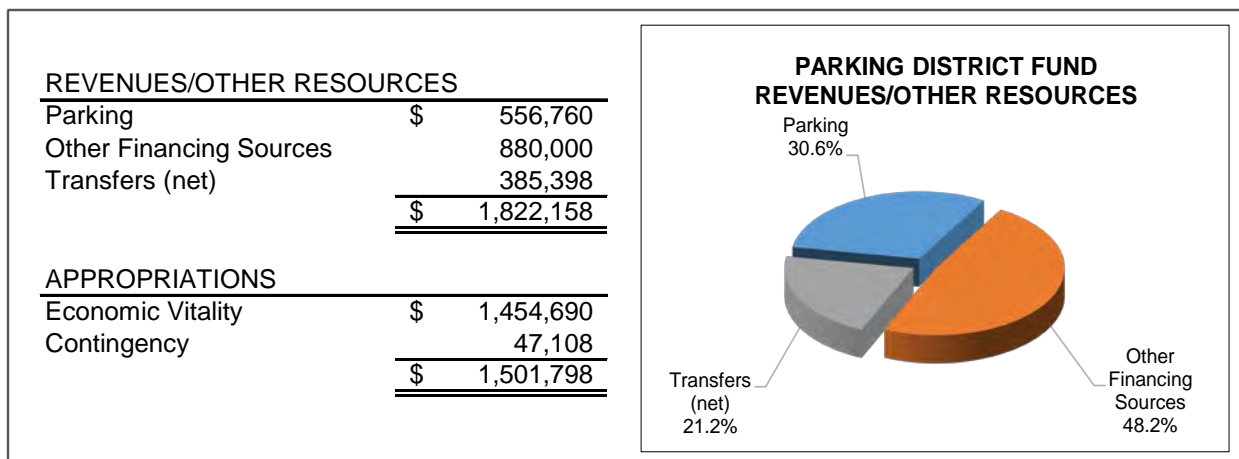
The availability of, and access to funding for startup and/or working capital are significant impediments to doing business in the four county region. By keeping these funds in the region, the City of Flagstaff reaffirms its commitment to being an active economic development partner in the greater community.



Parking District Fund

The Parking District Fund was created in FY 2017. City Ordinance 2016-05 was approved by City Council and created a special revenue fund for revenue generated by the implementation of the Comprehensive Parking Management Program. Of the revenue generated in this fund, 20% is reserved for acquisition and development of new public parking spaces in the downtown area.

The revenue and other resources for FY 2017 include \$557,000 in parking revenues, \$880,000 in capital lease proceeds and transfer from the General Fund of \$385,000 for startup cash flow needs for the fund. Total appropriation for the fund is \$1.5 million which includes \$421,000 for operations, and \$944,000 for operating capital and capital improvements.

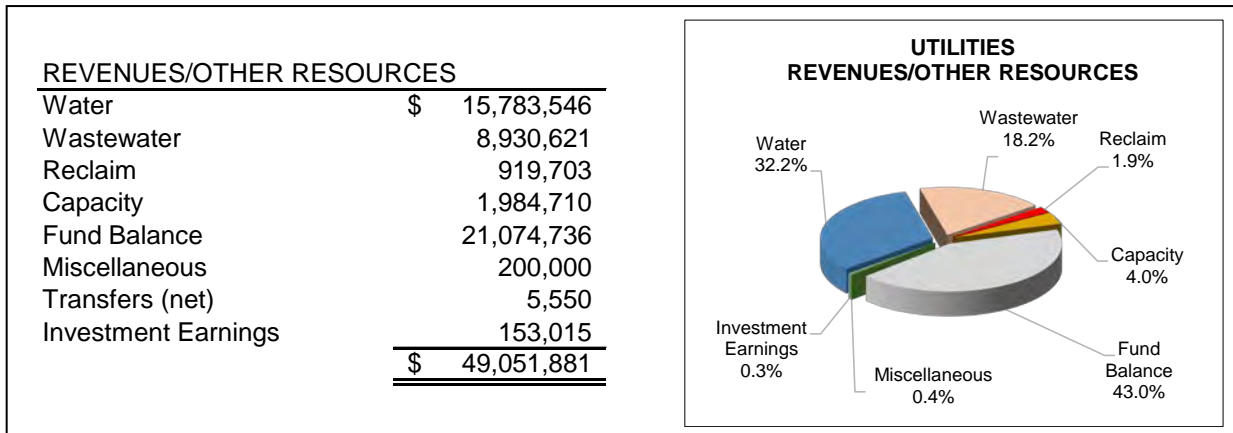


ENTERPRISE FUNDS

UTILITIES FUND

The City's water, wastewater and reclaimed water operations are operated as an Enterprise Fund activity, i.e., self-sustaining operations with user fees and charges based on a "cost-of-service" methodology. The rate model determines the minimum revenue requirements needed to support operations including: operating and maintenance costs; capital improvements considered routine in nature; principle and interest payments on bonded debt related to utility construction; and maintaining a year-end fund balance sufficient to ensure adequate working capital. Total appropriations for the Utilities Fund are \$39.4 million.

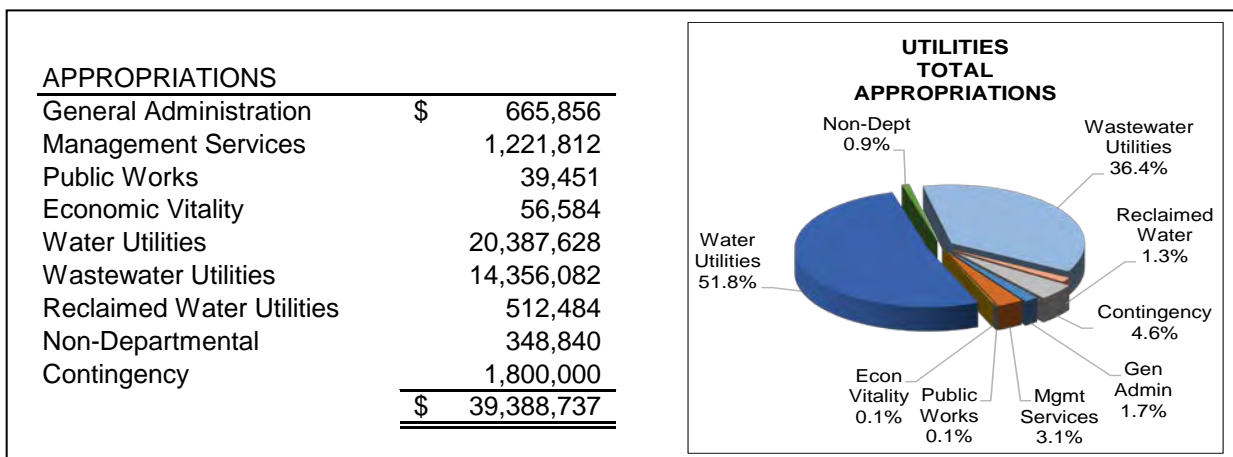
The City contracted for a rate model update in FY 2016 which identified a need to increase water and wastewater rates. The Council was presented with the recommended increases in the spring of 2016. Rate increases were approved with an effective date of July 1, 2016.



Water Operations: Total appropriations relating to direct costs for the water operations are approximately \$20.4 million. Water fees are the major source of revenue supporting water operations. Bond funds support future water rights. Revenue estimates total approximately \$15.8 million for water sales and capacity fee.

Wastewater Operations: Total appropriations relating to the direct costs for the wastewater operations are approximately \$14.4 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Revenue estimates total approximately \$8.9 million in wastewater charges.

Reclaimed Water Operations: Total appropriations related to the direct cost for the reclaimed water operations are \$512,484. Reclaimed water usage fees are the major source of revenue supporting these operations. Revenue estimates total \$919,703 in reclaimed water charges.



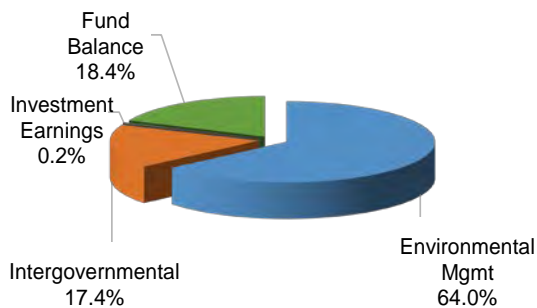
SUSTAINABILITY AND ENVIRONMENTAL MANAGEMENT FUND

Total financial resources are approximately \$1.6 million. The Environmental Management Fee, a user fee, is the major revenue source of the Sustainability and Environmental Management Section's (SEMS) operations. This fee is based on cost of operations. SEMS is housed within the Public Works Division and includes the Sustainability Section, Environmental Management Section, as well as Open Space Management. Through transfers out to the General Fund, this user fee partially funds Code Enforcement in the Community Development Division and the Greater Flagstaff Forest Partnership contract within the Fire Department.

REVENUES/OTHER RESOURCES

Environmental Mgmt	\$	993,288
Intergovernmental		269,998
Investment Earnings		2,993
Miscellaneous		500
Fund Balance		286,008
	\$	<u>1,552,787</u>

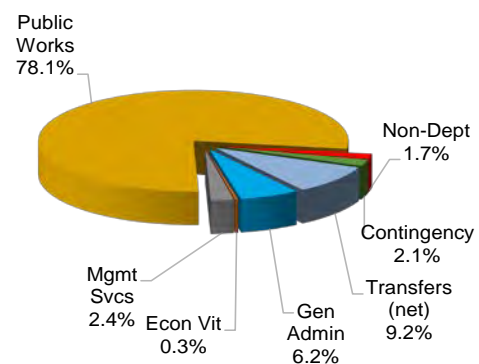
SUSTAINABILITY AND ENVIRONMENTAL MANAGEMENT REVENUES/OTHER RESOURCES



APPROPRIATIONS/TRANSFERS

General Administration	\$	87,814
Economic Vitality		4,027
Management Services		33,672
Public Works		1,112,287
Non-Departmental		24,623
Contingency		30,000
Transfers (net)		132,162
	\$	<u>1,424,585</u>

SUSTAINABILITY AND ENVIRONMENTAL MANAGEMENT TOTAL APPROPRIATIONS/TRANSFERS



Albert and the Sustainability Team

SOLID WASTE FUND

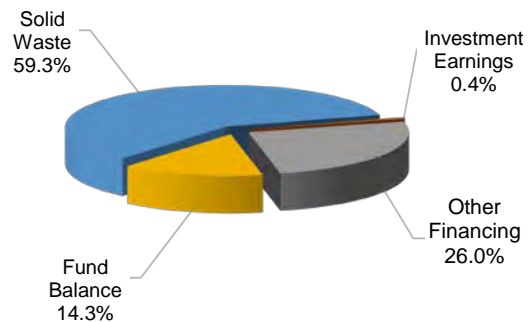
Total financial resources are \$19.5 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of eight major customer services areas (residential sanitation, curbside recycling, commercial sanitation, hoist and haul, landfill dumping, inert materials pit, and commercial recycling) with different rates for each category based on cost of service. The operating budget related to household hazardous waste has moved to solid waste this year.

The existing landfill rate structure provides cost recovery for ongoing operations as well as provisions for funding replacement equipment; closure and regulatory compliance costs related to mitigation of environmental contamination and/or degradation; as well as for future site requirements. Based on current estimates for closure and post-closure landfill costs, the City is setting aside legally restricted funds to ensure sufficient funds will be available to meet these requirements.

REVENUES/OTHER RESOURCES

Solid Waste	\$ 11,581,437
Investment Earnings	69,526
Other Financing Sources	5,075,000
Fund Balance	2,780,684
	<u>\$ 19,506,647</u>

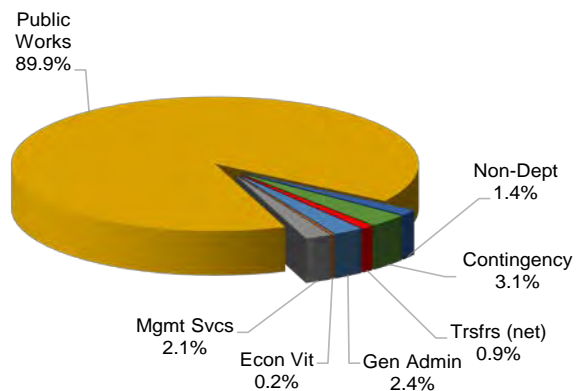
SOLID WASTE REVENUES/OTHER RESOURCES



APPROPRIATIONS/TRANSFERS

General Administration	\$ 381,308
Economic Vitality	40,125
Management Services	332,201
Public Works	14,500,037
Non-Departmental	232,398
Contingency	500,000
Transfers (net)	141,678
	<u>\$ 16,127,747</u>

SOLID WASTE TOTAL APPROPRIATIONS/TRANSFERS



AIRPORT FUND

Pulliam Airport is located four miles south of downtown Flagstaff and is staffed seventeen hours per day, seven days each week and provides airline service to Phoenix. Total appropriations are \$9.0 million: \$2.7 million for operations and reserve, \$0.3 million for debt and \$6.0 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements.

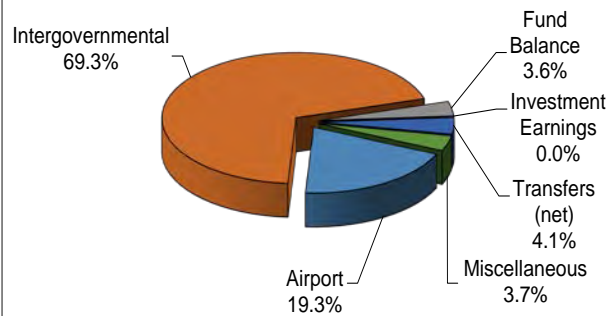
In 2017, of the \$6.0 million in capital improvements, 93% of the budgeted expenses are being funded with grants from the FAA and ADOT.

All revenues generated by the airport will be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and directly related to the actual transportation of passengers or property.

REVENUES/OTHER RESOURCES

Airport	\$ 1,801,965
Intergovernmental	6,472,281
Fund Balance	340,751
Investment Earnings	3,408
Transfers (net)	384,950
Miscellaneous	336,250
	<u>\$ 9,339,605</u>

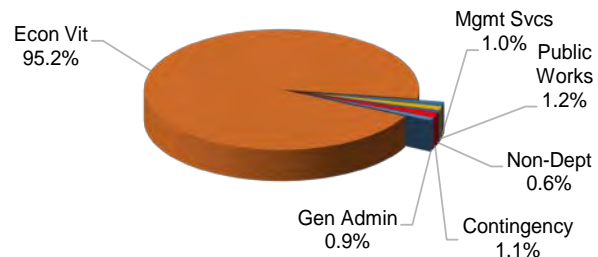
AIRPORT REVENUES/OTHER RESOURCES



APPROPRIATIONS

General Administration	\$ 84,236
Economic Vitality	8,544,809
Management Services	87,528
Public Works	103,613
Non-Departmental	51,856
Contingency	100,000
	<u>\$ 8,972,042</u>

AIRPORT TOTAL APPROPRIATIONS



STORMWATER FUND

The Stormwater Fund was initiated as a response to enhanced National Pollutant Discharge Elimination System (NPDES) stormwater requirements affecting all communities with populations greater than 50,000 as of March 2003. The City of Flagstaff worked with consultants to design a program that met current minimum NPDES standards. Stormwater fees to both residential and commercial customers are stepped based on every 1,500 sq. ft. of impervious area (ERU). A rate increase was approved for stormwater fees effective July 1, 2016.

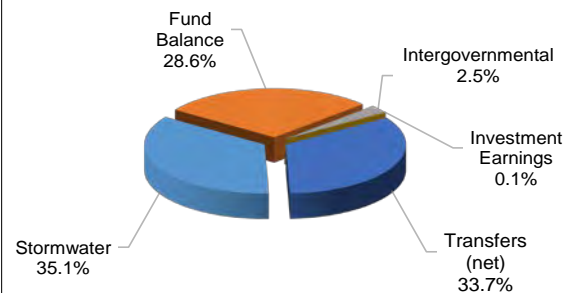
Total revenues/other resources for stormwater total approximately \$4.6 million for FY 2017.

Total appropriations of \$4.4 million include the operational components of NPDES implementation, general drainage maintenance, and drainage improvement projects (DRIP). The DRIP program assesses the community's needs for drainage improvements in highest priority of need within the City.

REVENUES/OTHER RESOURCES

Stormwater	\$	1,610,453
Fund Balance		1,309,181
Intergovernmental Revenues		113,960
Investment Earnings		6,546
Transfers (net)		1,543,677
	\$	<u>4,583,817</u>

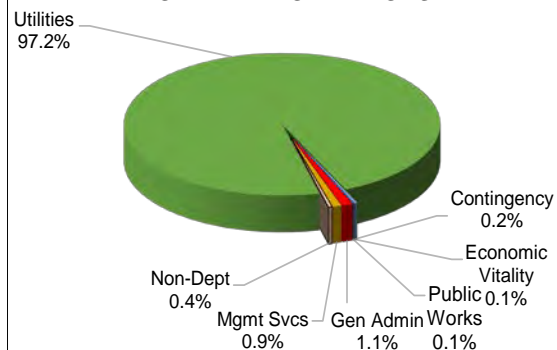
STORMWATER REVENUES/OTHER RESOURCES



APPROPRIATIONS

General Administration	\$	49,480
Economic Vitality		2,381
Public Works		4,517
Management Services		40,780
Utilities		4,275,626
Non-Departmental		17,090
Contingency		10,000
	\$	<u>4,399,874</u>

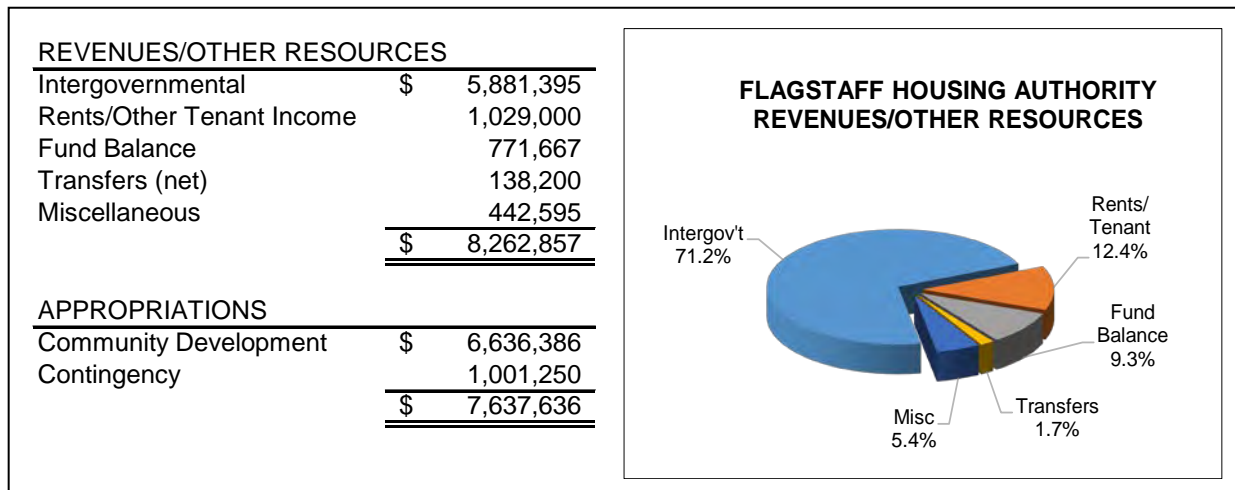
STORMWATER TOTAL APPROPRIATIONS



FLAGSTAFF HOUSING AUTHORITY

The Flagstaff Housing Authority (FHA) owns and operates 265 units of low income public housing, manages 80 units of low income housing and administers 399 Section 8 Housing Choice Vouchers, which include 4 homeless Vouchers and 66 VASH Vouchers. FHA also administers 12 housing vouchers for seriously mentally ill persons.

Total financial resources are approximately \$8.3 million. Intergovernmental revenue from the US Department of Housing and Urban Development comprises 71.5% of funding, or \$5.9 million. Rental income represents rent charges based on resident family income per Federal regulations. Miscellaneous income is primarily pass through and administrative fee income for Housing Choice Vouchers which the Housing Authority administers locally for other housing agencies and management of Flagstaff Housing Corporation. These portable Vouchers are under HUD contract with other housing agencies, and FHA administers the Vouchers locally, for which FHA earns an administrative fee.



FIVE-YEAR PROJECTIONS BY FUND

The City updates five-year plans annually during the budget process. These plans are an important tool to continue our emphasis on strategic planning and to identify the capacity of the City to fund projected expenditures. Revenue and resource estimates are based on the latest available economic and demographic trend information. All significant revenue and expenditure issues have been incorporated into the projections including local and state revenue trends, compensation and the operational impact of capital projects. The projections are not intended to be an exact prediction of what each department will spend in the next five years.

The policy of the City is to match ongoing expenditures with ongoing revenues. This policy is to assure that the funds have adequate revenues to support the continued operations. Several funds will use one-time revenues and fund balance to pay for capital equipment, capital improvements and other types of one-time expenditures. Generally when you see major fluctuations in fund balance from beginning to ending, the change is related to carryover for capital projects and/or budgeting of such items. Funds such as the General Fund, Highway User Revenue Fund, Transportation Fund, Beautification Fund, Recreation – BBB Fund, Housing and Community Services Fund and Capital Projects Bond Funds rely heavily on these one-time expenditure commitments.

The preparation of the five-year plan is a cooperative effort between division heads, section heads, and finance staff to assure projections are based on current program needs and revenue estimates are achievable.

The five-year projections are located in the Financial Summaries section. The following narratives present the highlight of the forecasts by funds and estimated change in fund balance for the coming fiscal year.

GENERAL

The primary purpose of the General Fund five-year projection is to assure that ongoing revenues are meeting or exceeding ongoing expenditures. Ongoing expenditures include normal operating expenditures, debt service, fleet replacements, information system replacement and upgrades, an allocation for capital and projected changes in personnel. As financial conditions change in the City, the five-year projections are continually updated to balance the ongoing sources and uses of funds.

The General Fund fund balance is projected to decrease by 41% as the City is currently funding several projects with fund balance and non-recurring revenues. Such projects include Rio de Flag flood control and the Court Facility. A portion of one-time items are the result of carryover requests from the previous year. The General Fund will maintain a minimum fund balance of 20%. A 15% fund balance is considered sufficient for the General Fund.

LIBRARY

The forecast for the Library fund shows the ability to fund ongoing operations costs with funding from the City, through revenue transfers, and the County, through an IGA. The Library fund balance decreased by 69% due to planned expenditures for circulation materials and other one-time items.

HIGHWAY USER

This fund is devoted to the maintenance, improvement and construction of street related items. The fund first matches ongoing revenues with ongoing maintenance and then plans out the capital equipment and improvements. Several capital improvements include portions that are funded through revenue transfers from other funds. The five-year plan shows the ability to balance ongoing and one-time expenditures while maintaining an adequate fund balance. The HURF fund balance decreased by 80% due to planned expenditures for operating capital and capital improvement projects.

FLAGSTAFF URBAN TRAIL SYSTEM

This fund accounts for capital projects related to the Flagstaff Urban Trail System (FUTS). The primary source for this fund is revenue transfers, a portion of the transportation tax. It is an ongoing effort to balance the amount of projects within the availability of revenues. This five-year plan shows how it is accomplished.

EDA REVOLVING LOAN

The primary source for this fund is created by a transfer of the portfolio for the U.S. Department of Commerce Economic Development Administration Revolving Loan Fund program from the Northern Arizona Council of Governments to the City of Flagstaff. Program funding is based upon loans granted, then repaid, which fund additional new loans to growing businesses. There is a net neutral effect to the City budget. The program was transferred to the City in FY 2014 and the full implementation is expected in FY 2017.

BEAUTIFICATION

The primary source for this fund is BBB taxes. This fund generally accounts for capital projects related to streetscapes. It is an ongoing effort to balance the amount of projects within the availability of revenues. This five-year plan shows how it is accomplished. The Beautification fund balance decreased by 85% due to planned expenditures for the completion of various capital projects.

ECONOMIC DEVELOPMENT

This fund is balanced with ongoing revenues from BBB taxes, lease revenues and General Fund transfers. Ongoing expenditures support a number of efforts focused on business attraction, retention, work force development, the Business Incubator and Accelerator. The Economic Development fund balance decreases by 46% in FY 2017 due to the use of excess fund balance to cover planned expenditures which will attract long term business investment in the City.

TOURISM

This fund is balanced with ongoing revenues from BBB taxes, retail sales and lease revenue. Ongoing expenditures are related to tourism promotion and visitor center services. Based on projected revenue, this fund can maintain existing operations levels. The Tourism fund balance increases in FY 2017 by 5% due to phased expenditures to increase the investment in tourism promotion and Visitor Center needs.

ARTS AND SCIENCE

This fund is balanced with ongoing revenues from BBB taxes and has ongoing expenditures related to service partner contracts for projects related to awareness of arts and science in our community. Planned public art projects result in an Arts and Science fund decrease of 38% in FY 2017.

RECREATION - BBB

This fund is used for capital improvements to City and school recreational parks and fields. In addition, maintenance costs related to the improved parks and fields, maintenance of FUTS trails and recreation programming are funded with ongoing revenues. The Recreation – BBB fund balance decreases by 65% due to planned expenditures for the completion of various recreational capital projects.

HOUSING AND COMMUNITY SERVICES

This fund is primarily used to track revenues and expenditures related to Community Development Block Grants and other housing grants. The block grants are an entitlement to the City and are expected to stay level over the next five years. The City currently expects to receive State housing grants every year. The Housing and Community Services fund balance decreases by 79% due to planned one-time expenditures.

METROPOLITAN PLANNING ORGANIZATION

This fund is solely used for transportation planning grants. It is currently estimated that grant revenues will remain consistent throughout the next five years. Some work is performed for internal customers and allocated through charge-outs.

PARKING DISTRICT

This fund was established in FY 2017 to account for the collection of revenue and tracking of expenditures for the downtown parking district.

GENERAL OBLIGATION BOND

This fund is used to service payments on general obligation bonds. This five-year projection shows the City is meeting the requirements for future debt service payments.

SECONDARY PROPERTY TAX

This fund represents the collection of secondary property tax revenue and the subsequent transfer to service the related debt as it becomes due. The five-year projection uses the current assessed valuation figures from the County to estimate property taxes that will be available for debt service expenditures. The projection assumes additional voter authorization will be issued in the future within the existing tax rate. This allows the City to smooth long-term secondary property tax rates so a level tax rate is maintained from year to year. The Secondary Property Tax fund balance decreased by 21% as the City pays off debt.

SPECIAL ASSESSMENT BOND

This fund is set up for repayment of bonds issued for special assessment districts. The Special Assessment Bond fund balance remains flat in FY 2017.

PERPETUAL CARE

This fund is currently used for the tracking of contributions related to long-term maintenance at the city-owned cemetery. The fund balance increases as contributions are received. Expenditures will not be budgeted until there is adequate fund balance.

CAPITAL PROJECTS BOND

These funds are used to track the revenues and expenditures of the voter approved, bond eligible projects. In May of 2004, the voters of Flagstaff approved ten projects with three projects still remaining to be completed. In November 2010, the citizens of the City of Flagstaff approved two projects and in November of 2012, two additional projects were approved by the voters. Projects/bond sales are scheduled to coincide with the retirement of other debt so the overall secondary property tax rate does not increase. This fund currently has two components:

1. GO Bond Funded Projects
2. Non-GO Bond Funded Projects

Both fund balances are affected by the timing of bond proceeds and capital expenditures.

WATER, WASTEWATER AND RECLAIMED WATER

As a City enterprise fund, this fund is managed on a self-sustaining basis. The five-year projections show that ongoing expenditures, capital improvements and debt service requirements are being met with user fees, fund balance, grants, bonds and interest earnings. In addition to the five-year projections, the City uses a rate model to balance future operations and capital requirements with anticipated revenues over a ten-year period. City Council recently adopted a rate increase effective July 1, 2016. The Water, Wastewater and Reclaimed Water fund balance decreases by 54% due to the planned completion of capital projects.

AIRPORT

This enterprise fund is responsible for the operations of Flagstaff Pulliam Airport. The majority of revenues in FY 2017 and beyond are grants related to continued expansion and capital improvements at the airport and lease revenues. The capital improvement plan is based on annual updates to ADOT and FAA. The City's General Fund currently makes a transfer to the Airport to cover the match portion of capital grants awarded and to aid operations. The Airport fund balance increases by 8% due to the timing of expenditures for operational capital and maintenance needs, as well as the construction capital program in FY 2017.

SOLID WASTE

This enterprise fund is self-sustaining through user fees. The five-year projection anticipates a growth rate of two percent. This coincides with on-going operations, capital needs and revised service levels for all operations. Included in the five-year projection is the anticipated funding to cover the landfill closure and post-closure costs at the end of the useful life of the landfill and the related increase of user fees that will coincide with the construction of a new cell. The Solid Waste fund anticipates a 22% increase in fund balance due to timing of bond proceeds and the related capital expenditures.

SUSTAINABILITY AND ENVIRONMENTAL MANAGEMENT

This enterprise fund is self-sustaining through user fees and revenue transfers. The five-year projection anticipates a growth rate of two percent. This coincides with ongoing operations and revised service levels for all operations. The Sustainability and Environmental Management fund anticipates a 55% decrease due to increased one-time approved operating costs and the movement of the household hazardous waste program to the solid waste fund.

STORMWATER

This enterprise fund oversees City issues related to drainage and associated federal requirements. Ongoing operating expenditures are paid for with stormwater revenues and user fees. City Council adopted a rate increase effective on July 1, 2016. The rate increase will self-fund capital improvements and increase inspection efforts as required by NPDES. The Stormwater fund balance decreases 86% due to the timing of capital projects and planned one-time expenditures.

FLAGSTAFF HOUSING AUTHORITY

While the Flagstaff Housing Authority (FHA) has operated for a number of years, it was recently determined that it should be reported as a distinct City fund. The FHA manages Housing and Urban Development (HUD) Section 8 and other voucher programs as well as public housing for City residents. The five-year plan indicates the majority of funding is grant related. Due to the cuts of Federal funding in FY 2017, the City anticipates the FHA fund balance to decrease by 19%.



Wellness Walk at Buffalo Park

REVENUES

Historical trend information for select revenues.

ALL FUNDS

FEDERAL AND STATE GRANTS

Description: Federal and State agencies and foundations provide various operating and capital grants. These grants have numerous requirements and restrictions that must be adhered to. Most grants are awarded in a competitive application process and others are entitlement based.

Grants can vary significantly from year to year because of the nature and availability of grants. Capital grants tend to be one-time grants. Operating grants may cover multiple years or may be applied for year after year if funding is available.

Projects funded by Federal and State grants in FY 2017 include transportation planning efforts through FMPO; Airport improvements; a focus on improvements to recently-acquired open space areas Picture Canyon and Observatory Mesa; and grants supporting thinning efforts by the Fire Department augmenting the Flagstaff Watershed Protection Project. In addition, the City has several large, ongoing federal grants for Community Development, Section 8, and Low Income Public Housing (See Schedule C-1 for details).

GENERAL FUND

PROPERTY TAX RECEIPTS CURRENT, PRIMARY

Legal Authority: Arizona Revised Statutes Section 42-45 (B) based on the State Constitution Article 9, Section 18. Revised through HB2876, June 2006.

Description: Property tax is levied each year on or before the third Monday in August based on full cash value of the assessed property as determined by the Coconino County Assessors' Office.

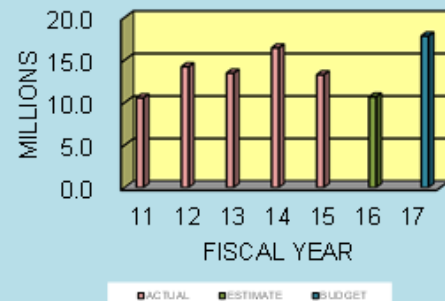
Receipts from primary property taxes levied by the City are deposited in the General Fund. No restrictions on usage apply to the primary property tax. State statute limits the annual increase in levy to 2% plus the amount generated by construction. For FY 2013 through FY 2017 Council voted to keep the levy flat plus new construction. The City's capacity for levy increase is 10%.

Primary property taxes generally change on an annual basis for two reasons: new construction added to the tax rolls and the reassessment of existing property. New construction added \$9.9 million dollars to the assessed valuation and existing primary property tax values increase by 1.4%.

FEDERAL AND STATE GRANTS

FY:	AMOUNT	% CHANGE
10-11	\$ 10,553,499	78.4%
11-12	14,209,064	34.6%
12-13	13,459,399	-5.3%
13-14	16,423,052	22.0%
14-15	13,263,009	-19.2%
15-16	10,652,024	-19.7%
16-17	17,824,180	67.3%

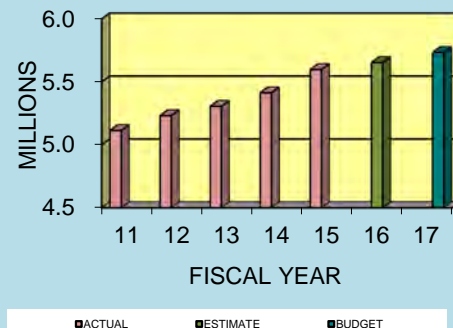
FEDERAL AND STATE GRANTS



PRIMARY PROPERTY TAX

FY:	AMOUNT	% CHANGE
10-11	\$ 5,113,647	4.9%
11-12	5,230,618	2.3%
12-13	5,304,734	1.4%
13-14	5,413,125	2.0%
14-15	5,597,027	3.4%
15-16	5,653,083	1.0%
16-17	5,732,476	1.4%

PRIMARY PROPERTY TAX



CITY SALES TAX (TRANSACTION PRIVILEGE TAX)

Legal Authority: City Code, Title 3, Chapter 5, (Ordinance 1491).

Tax currently sunsets November 2024.

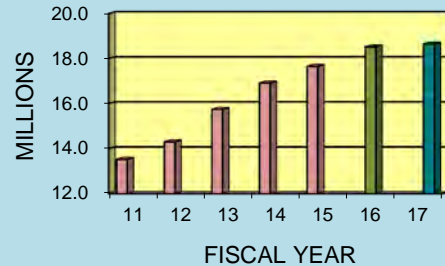
Description: The single largest revenue source for the City is obtained from a 1% tax on the sales of goods. The sale of food for home consumption is exempted from the tax. Additional sales taxes levies include a 2% tax on hotels, motels, restaurants and bars (BBB Tax) and a 1.051% transportation tax which are shown on the following pages.

The large increase in FY 2012 is driven through the approval of a revised franchise agreement that now allows for the collection of both a franchise tax and a sales tax. Increases after FY 2012 point to the continued economic recovery. FY 2017 shows a slight increase due to the unknown impact of tax collections moving to the Arizona Department of Revenue.

CITY SALES TAX

FY:	AMOUNT	% CHANGE
10-11	\$ 13,525,825	1.3%
11-12	14,304,655	5.8%
12-13	15,744,648	10.1%
13-14	16,916,865	7.4%
14-15	17,655,291	4.4%
15-16	18,520,000	4.9%
16-17	18,644,170	0.7%

CITY SALES TAX REVENUES



STATE SALES TAX

Legal Authority: Arizona Revised Statutes Section 42 - 1341 (D).

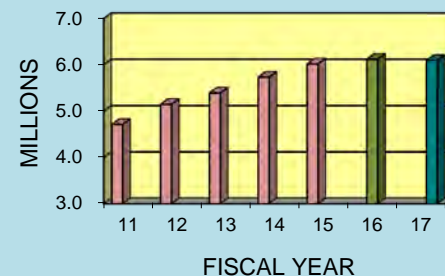
Description: A half-cent (.5%) portion of the five-cent (5%) State Sales Tax collected is divided among the State's cities and towns based on population. These revenues can be used for any municipal purpose and, therefore, are deposited in the General Fund to support activities and services provided by the general government.

Recovery from the recession began in FY 2011. Increases in FY 2012, and on, are due to an economic recovery and the shift in Arizona state population. The City of Flagstaff is now 1.31% of the state population, up from 1.25%, which directed additional funds to the City from state shared resources. The FY 2017 decrease is related to the mid-decade census changes and the City's expectation of a small decrease in our proportionate share of state population.

STATE SALES TAX

FY:	AMOUNT	% CHANGE
10-11	\$ 4,711,821	4.9%
11-12	5,147,101	9.2%
12-13	5,391,580	4.7%
13-14	5,733,507	6.3%
14-15	6,019,777	5.0%
15-16	6,120,000	1.7%
16-17	6,094,663	-0.4%

STATE SALES TAX

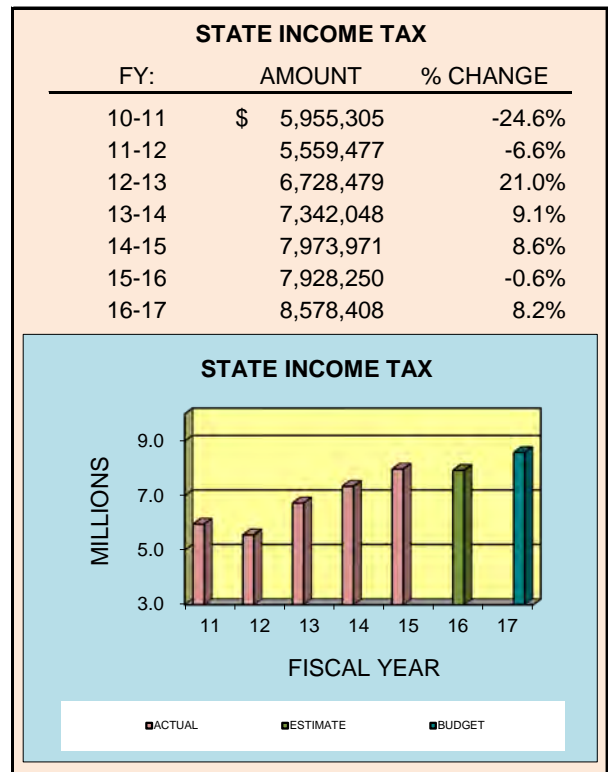


STATE INCOME TAX (REVENUE SHARING)

Legal Authority: Arizona Revised Statutes Section 43 - 244 (B)

Description: Arizona cities share in 15.8% of the State income tax collected based on the population of the cities and towns as reported in the 2010 Census and adjusted by the annual DES POPTAC estimates. A two-year lag exists between the year of distribution and collection and the reporting year for which the income tax returns are filed. Therefore, little variance is expected between amounts estimated in the budget and actual receipts. Because revenues can be used for any municipal purpose, funds received are deposited in the General Fund to support the services and activities of the general government.

The decrease in FY 2012 was driven by a continued decline in revenues associated with the recession. This decline was somewhat mitigated by the City of Flagstaff as it gained a relative population share as a result of the 2010 Census. The City's population share within the State of Arizona grew from 1.25% to 1.31% which increased the local allocation of this revenue. The large increases in FY 2013, FY 2014 and FY 2015 were due to the City's increased population share and economic recovery. The decrease in FY 2016 was due to reductions in corporate income taxes passed by the Arizona state legislature. FY 2017 will see gains in individual income tax and one-time increases due to the State Tax Amnesty program. Corporate income tax will continue to decline due to state mandated changes.



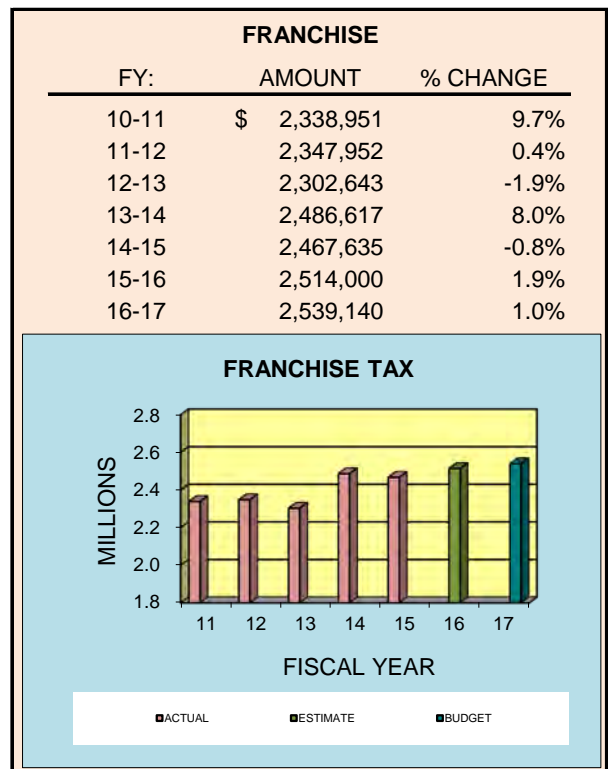
FRANCHISE TAX

Legal Authority: Flagstaff Charter and City Code Article XII.

Arizona Public Service (APS): Resolution 2009-52 (expires 8-21-2036), UniSource Energy Services: Ordinance 1879 (expires 10-3-2020), US West, MCI, US Sprint, Central Corp, A T & T: Ordinance 585 and NPG: Resolution 2006-72 (expires 12-31-2016).

Description: A 2% tax from utility companies - Arizona Public Service and UniSource - is credited to this account. The City also receives a 2% tax from telecommunication companies, except Suddenlink Communications, which is taxed at 5%.

The increase in FY 2014 was due to the additional category of electric franchise payor. The FY 2015 decrease reflects lower than expected collections in the natural gas and electric franchise categories due to a warmer than average winter. It is anticipated, in FY 2016 and FY 2017, there will be an inflationary increase of 1.9% and 1.0% in revenue projected.



FINES AND FORFEITURES

Legal Authority: Arizona Revised Statutes, Rules of Criminal Procedure and City Code, Title 1, Chapter 15, Section 8.

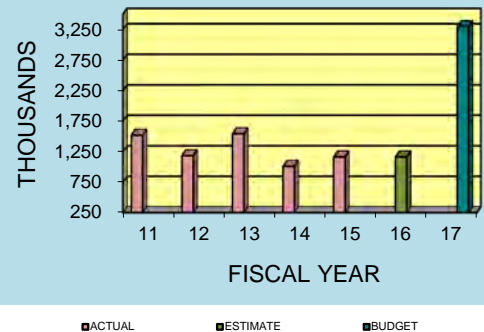
Description: Revenues are derived from a multitude of fines and forfeitures that relate to fines ordered by the court magistrates and administrative charges for Traffic School. Other miscellaneous fees allowed include court reimbursements and court collection fees.

Revenues vary on an annual basis dependent upon the mix of criminal and civil cases handled by the court system in any particular year as well as the fee structure in place at the time of the case. The allocation of the fines is prescribed by the Superior Court, usually annually, and/or the Flagstaff Municipal Court (dependent upon the type of case).

FINES AND FORFEITURES

FY:	AMOUNT	% CHANGE
10-11	\$ 1,517,937	15.4%
11-12	1,182,413	-22.1%
12-13	1,540,987	30.3%
13-14	1,007,801	-34.6%
14-15	1,161,663	15.3%
15-16	1,161,080	-0.1%
16-17	3,298,980	184.1%

FINES AND FORFEITURES



AUTO IN LIEU TAX (VEHICLE LICENSE TAX)

Legal Authority: Arizona Revised Statutes Section 28 - 1591 (c).

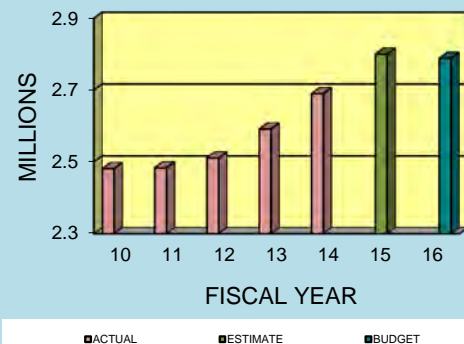
Description: Twenty-five percent (25%) of the net receipts from vehicle licensing collected by the State is returned to the cities and towns of licensing origin. The distribution is based on population in proportion to total population in incorporated areas. This revenue source can be used for any municipal purpose; therefore, revenues are deposited in the General Fund to support services and activities of the general government.

Auto in Lieu tax is received on a declining scale over a five year period based on the automobile value until it stabilizes at the depreciated amount. As fewer new vehicles have entered the grid, overall revenue was low from FY 2010 through FY 2012. Even with the opening of the Auto Mall, revenues only show moderate growth the past few years. Revenue growth has increased though is projected to decline in the future. The FY 2017 decrease is related to the mid-decade census changes and the City's expectation of a small decrease in our proportionate share of state population.

AUTO IN LIEU TAX

FY:	AMOUNT	% CHANGE
10-11	\$ 2,481,126	-0.4%
11-12	2,483,244	0.1%
12-13	2,510,832	1.1%
13-14	2,591,413	3.2%
14-15	2,689,916	3.8%
15-16	2,800,000	4.1%
16-17	2,788,408	-0.4%

AUTO IN LIEU TAX



SPECIAL REVENUE FUNDS

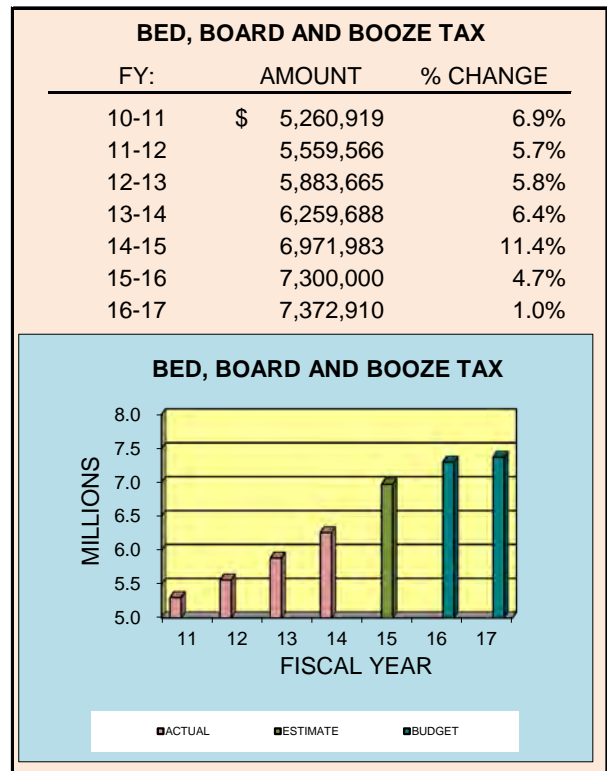
BED, BOARD AND BEVERAGE FUNDS

BED, BOARD AND BEVERAGE TAX

Legal Authority: Ordinance 1902, Reauthorized by voters May 2010, extended by vote to March 31, 2028.

Description: An additional city sales tax of 2% is charged on the services of hotels, restaurants and bars. The City has designated all of these revenues for the purposes of enhancing beautification, tourism, economic development, recreation, and arts and sciences.

FY 2017 has shown a leveling in projected revenue, though continuing to demonstrate the strength of tourism in Northern Arizona. The growth demonstrated in year-over-year receipts indicates the funds used toward targeted tourism is paying off.



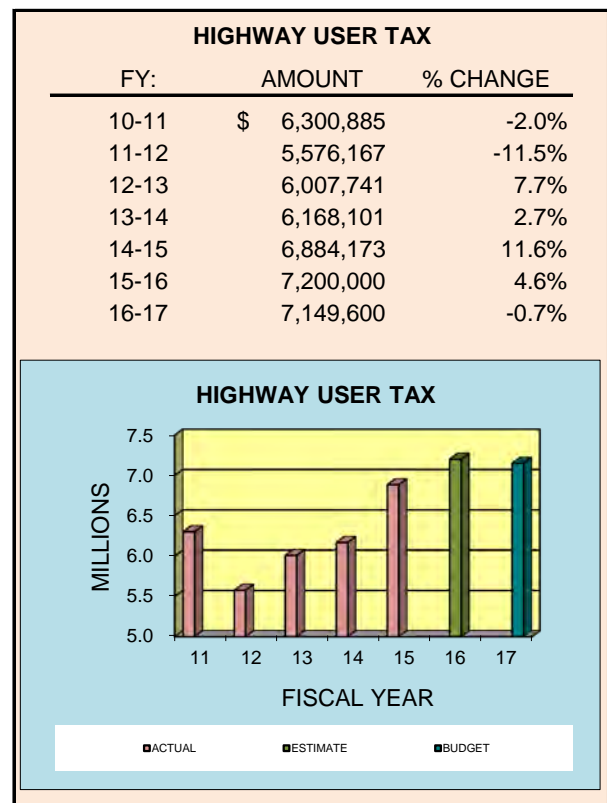
HIGHWAY USER REVENUE FUND

HIGHWAY USER TAX

Legal Authority: Arizona Revised Statutes Section 28 - 1598 (B.4), (for method of distribution see ARS 28-1598 (D.3)).

Description: The proceeds from the State-shared motor vehicle fuel tax (currently 16 cents per gallon, of which cities and towns share in 13 cents per gallon) are distributed by the State to cities and towns by a compromise formula. Fifty percent of the distribution is based on point of origin for the sale of gasoline. The remaining fifty percent is based on population in proportion to total population for incorporated towns and cities.

The large decrease in FY 2012 was due to the decline in State appropriation for the DMV (Department of Motor Vehicles). The City experienced an 11.6% increase in HURF revenues in FY 2015 due to the State approving an additional \$30 million of HURF revenues to be allocated to cities and counties, plus an overall increase in HURF collection due to decreasing gas prices. The City expects a small decrease in FY 2017 due to a small percentage decrease in the City's proportionate share of population compared to total population for all incorporated towns and cities due to mid-decade census changes.



TRANSPORTATION TAX

Legal Authority: Resolution 2004-48, approved by voters May 2000 and Ordinance 2014-34 approved by voters November 2014.

Description: The transportation tax was approved by voters to address four transportation issues. This tax was approved for a period of twenty years. The tax helps to pay for the 4th Street overpass, safety improvements, street improvements and transit services. The transportation tax is assessed on the same goods and services as the City's general sales tax. The current tax rate is 1.051%.

The increase in FY 2015 and FY 2016 was due to a new 0.33% Road Repair and Street Safety tax approved by the voters in November 2014 with an effective date of January 1, 2015. The City anticipates small growth in FY 2017.

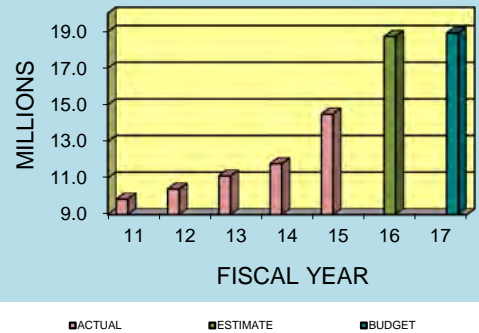
Transportation Tax Rate Breakdown

4th Street Overpass	0.160%
Street Improvements	0.186%
Safety Improvements	0.080%
Road Repair and Street Safety	0.330%
Transit Services	0.295%
Total	1.051%

TRANSPORTATION TAX

FY:	AMOUNT	% CHANGE
10-11	\$ 9,851,253	3.4%
11-12	10,399,189	5.6%
12-13	11,114,898	6.9%
13-14	11,769,839	5.9%
14-15	14,491,488	23.1%
15-16	18,725,667	29.2%
16-17	18,912,924	1.0%

TRANSPORTATION TAX



Historic Downtown Flagstaff (Flagstaff Convention and Visitors Bureau)

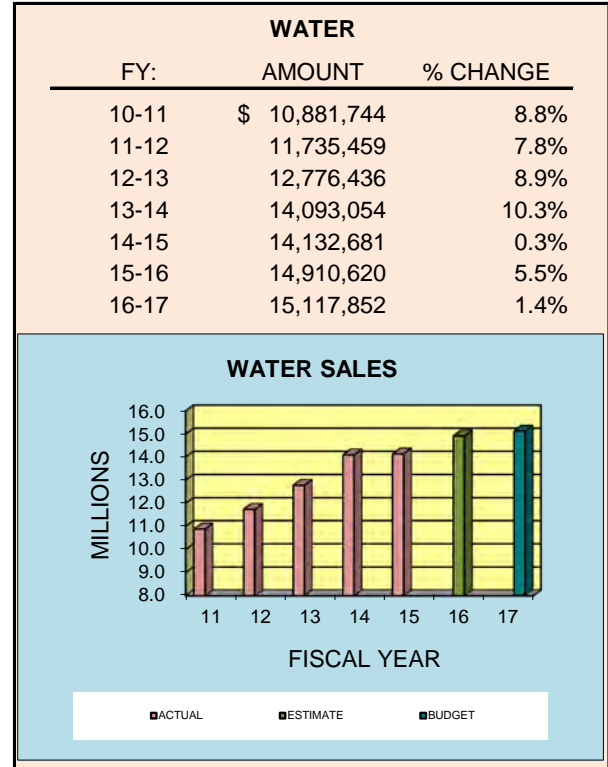
ENTERPRISE FUNDS

WATER SALES

Legal Authority: City Code, Title 7, Chapter 3, Section 11.

Description: The principle revenue for operating and managing the City's water system is derived from rates and charges for water services. Monthly water bills consist of 1) a base charge based on meter size and 2) a charge based on actual water consumption by customer class. Most single family accounts are based on an inverted rate structure for consumption levels to encourage water conservation practices. All other customer accounts are charged based on a flat rate per 1,000 gallons.

The rates for each customer class were reviewed in 2016 using an outside consultant. Rate changes were approved by Council with an effective date of July 1, 2016. The rates will increase annually for the next five years.

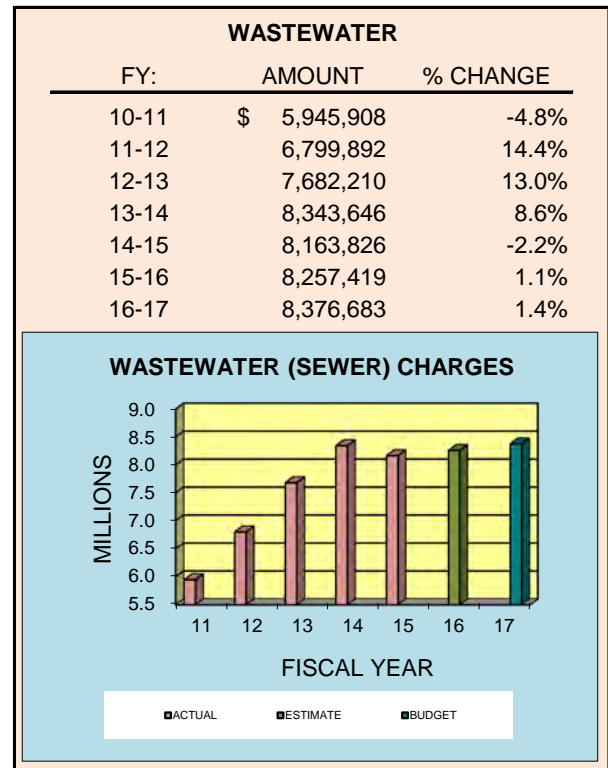


WASTEWATER SERVICE CHARGES

Legal Authority: City Code, Title 7, Chapter 2, Section 39.

Description: The principle revenue for operating and managing the City's wastewater system is derived from revenues generated from wastewater (sewer) rates and user charges. Most residential customer charges are based on average water consumption for the preceding winter months (Dec-Mar). All other customers are billed based on actual monthly metered water usage unless they can measurably separate which quantity of water does not reach the wastewater system.

The rates for each customer class were reviewed in 2016 using an outside consultant. Rate changes were approved by Council with an effective date of July 1, 2016. The rate will increase annually for the next five years.



RECLAIMED WATER SALES

Legal Authority: City Code, Title 7, Chapter 3, Section 18.

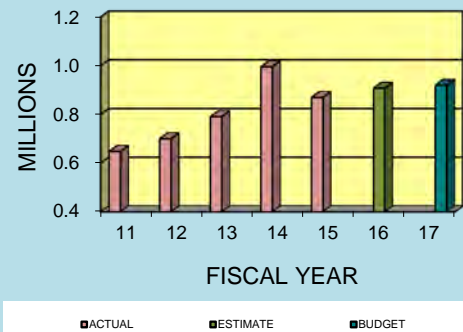
Description: The principle revenue for operating and managing the City's reclaimed water system is derived from rates and charges for reclaimed water usage. Monthly reclaimed water bills consist of 1) a base charge based on meter size and 2) a charge based on actual reclaimed water consumption by customer class. The primary use of reclaimed water is for lawn watering and construction.

The rates for each customer class were reviewed in 2016 using an outside consultant. Reclaimed water rates remained unchanged with the new rates effective July 1, 2016.

RECLAIMED WATER

FY:	AMOUNT	% CHANGE
10-11	\$ 647,471	-9.3%
11-12	699,476	8.0%
12-13	790,301	13.0%
13-14	995,453	26.0%
14-15	869,615	-12.6%
15-16	907,005	4.3%
16-17	919,703	1.4%

RECLAIMED WATER CHARGES



SUSTAINABILITY AND ENVIRONMENTAL MANAGEMENT

Legal Authority: City Code, Title 7, Chapter 4, Sections 8-9.

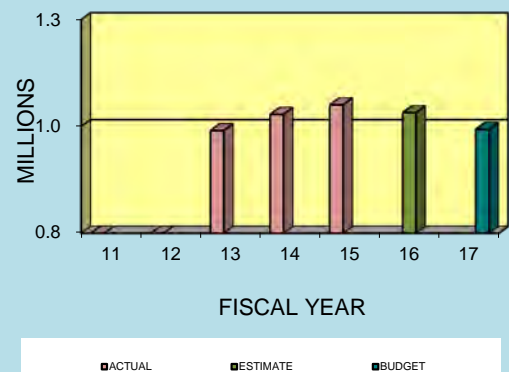
Description: Environmental Management is supported by an environmental service fee. This fee is a fixed monthly charge at a rate of \$4.00 per location.

The decrease in revenues for FY 2017 are related to the movement of the household hazardous waste program to the Solid Waste Fund.

ENVIRONMENTAL MANAGEMENT

FY:	AMOUNT	% CHANGE
10-11	\$ -	N/A
11-12	-	N/A
12-13	990,465	N/A
13-14	1,028,222	3.8%
14-15	1,050,537	2.2%
15-16	1,032,336	-1.7%
16-17	993,288	-3.8%

ENVIRONMENTAL MANAGEMENT REVENUES

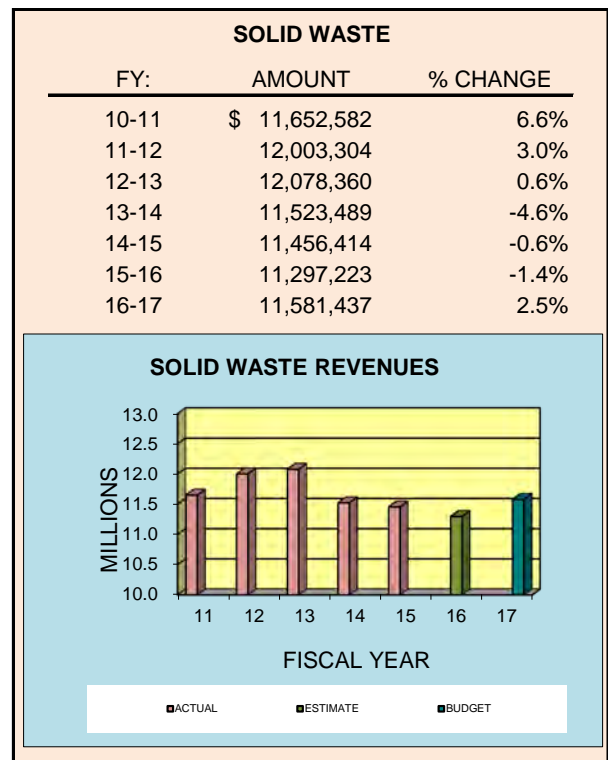


SOLID WASTE

Legal Authority: City Code, Title 7, Chapter 4, Sections 8-9.

Description: Solid Waste disposal service revenue is comprised of solid waste collection charges, hoist and haul fees, landfill dumping charges, inert materials landfill fees and residential and commercial recycling. Service charges for residential and commercial customers are based on size of container and frequency of pickup. Hoist and haul is based on a cost per pull plus tonnage. Receipts from fees charged for dumping at the City Landfill are based on tonnage.

The increase in revenues for FY 2017 is related to projected growth and the inclusion of the program revenue related to household hazardous waste.

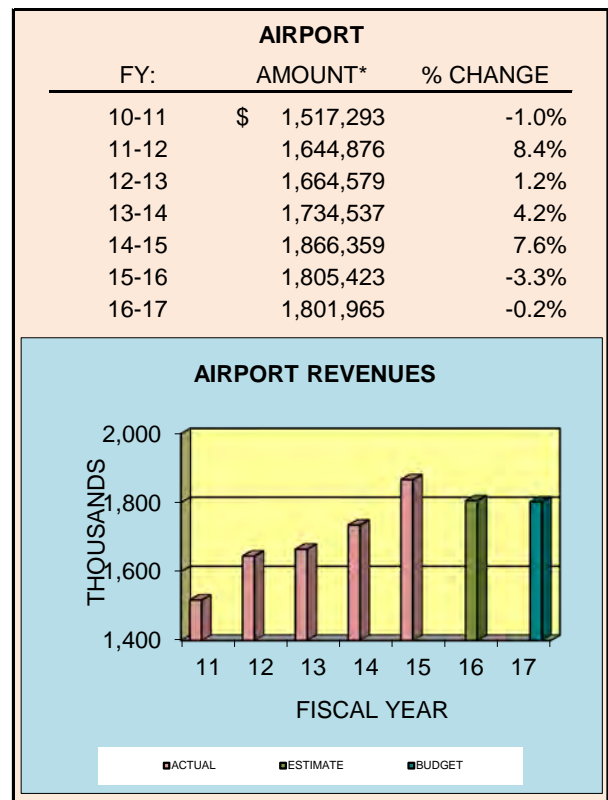


AIRPORT

Legal Authority: City Code, Title 8, Chapter 6, Sections 1-8.

Description: Airport revenue is derived from the rental of airplane hangars, tie-downs, tie-downs with electricity and shades rented to various individuals and vendors. Landing fees are charged at a rate of \$1.05/1,000 pounds based on gross certificate landing weight of aircraft. Rental revenue from terminal rent consists of space, concession and advertising fees. In addition, revenues are collected from the sale and storage of aviation fuel. During FY 2016, the PFC charge assessed was \$4.50 per ticket. The \$4.50 PFC charge assessed was \$4.50 per ticket. The \$4.50 PFC amount continues to be in effect in the foreseeable future. PFC's are collected from the ticket sales of passengers embarking from the Pulliam Airport. PFC revenue is not used for operating expenditures. Airport revenues are required to be used for Airport operations.

Revenues are conservatively estimated reflecting ground leases transition, hangar executive box vacancies and lower volume fuel flowage fees. The expectation is that the Airport revenues will possibly decline slightly due to the fluctuations in the general economy.



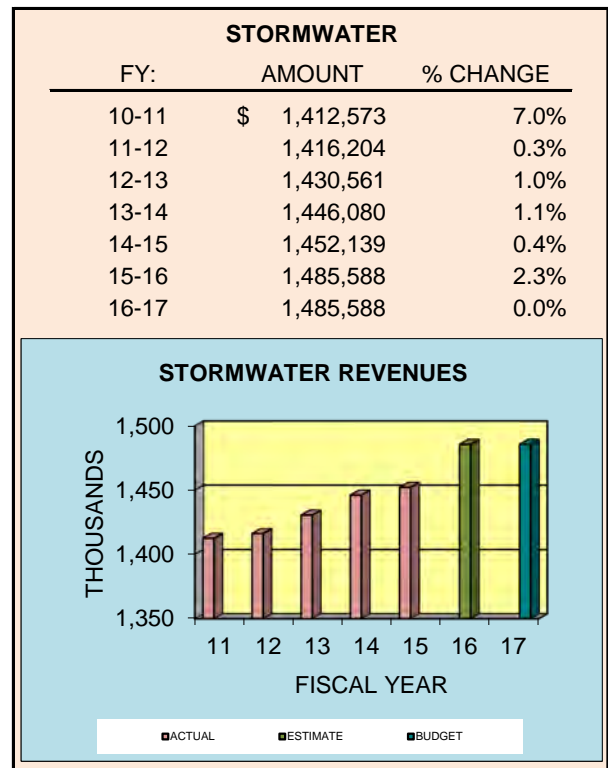
* Revenue is comprised of PFC Revenue + Airport Operating Revenues (excludes miscellaneous and indirect revenues)

STORMWATER

Legal Authority: City Code, Title 12, Chapter 2, Section 3.

Description: Stormwater revenue is determined by the number of Equivalent Runoff Units (ERU's) on a property. An ERU is defined as 1500 square feet of impervious matter. Charges are the same for both commercial and residential customers.

The first year of implementation was FY 2004 with a rate of \$.53 per ERU. The rate was then adjusted in FY 2007 to \$.92 per ERU which covered additional staff, additional costs related to the mandated NPDES permit activities and a proposed Drainage Spot Improvement Program. In FY 2011 the rate was once again increased to its current level of \$1.30 per ERU. City Council adopted a rate increase which will be effective July 1, 2016.

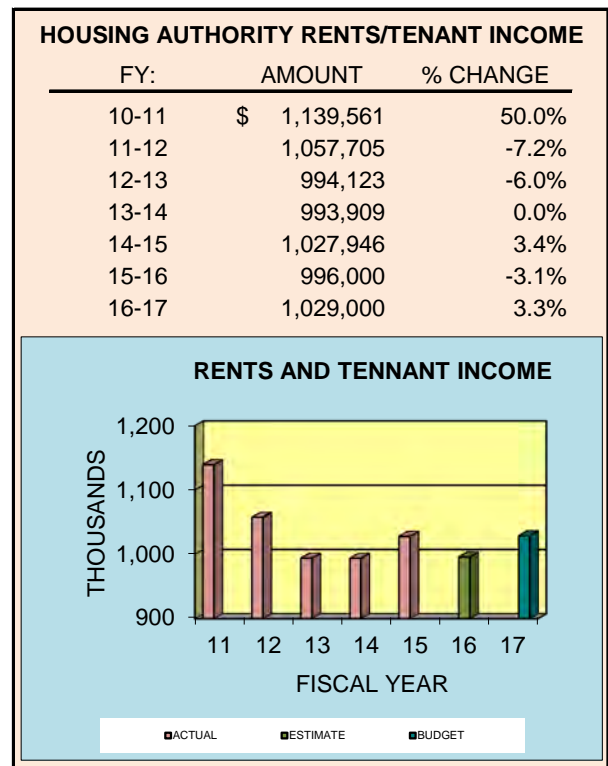


HOUSING AUTHORITY

Legal Authority: U.S. Housing Act of 1937, as amended, and Title 24 Code of Federal Regulations.

Description: Flagstaff Housing Authority (FHA) rents and tenant income represent rent and other charges paid by families/individuals living in public housing. Rent is generally based on approximately 30% of family income, and is not a fixed amount as it is for subsidized housing. It is important to note that as rental income increases, Federal subsidy that supports the operation of public housing decreases. HUD funds operate based on a formula for reasonable expenditures; so if rental income increases, HUD Operating Subsidy decreases.

The revenue increases in FY 2011 was the result of significant increases in the "flat rent". Residents may choose between flat rent and rent that is income based. FHA began implementing higher flat rents in this time frame, which resulted in more families paying higher rents. The decrease in income for FY 2012 through FY 2014 was due to falling incomes for the families/individuals served. Rent is projected to increase slightly in FY 2017.



CAPITAL BUDGET

RELATIONSHIP BETWEEN OPERATING AND CAPITAL BUDGET

The Five-Year Capital Improvement Plan (multi-year, long-range study of construction and/or acquisition of high cost items with an extended useful life) is prepared in conjunction with the Annual Budget and Financial Plan (focus on municipal service delivery programs which generally are of an on-going nature); however, the two processes are inter-related.

The operations and maintenance of major capital facilities and infrastructure can significantly impact the operating budget and, must be considered prior to approval and commencement of acquisition of a particular capital asset. In the capital improvement plan for the City, various components have greater impact on the operating budget than other elements and, may even override operating budget constraints, e.g. mandatory environmental regulatory compliance.

Upon completion of the latest rate model, the Water and Wastewater Enterprise Fund's revenue structure is sufficient to meet existing and future impacts of capital operating requirements including environmental sanctions and debt. Proposed, as well as existing debt service is included as the changes in debt service requirements must be built into the rate models in determining what, if any, rate increases are required each year.

The Highway User Revenue Fund designates a portion of State distributions to the pavement maintenance program. The program is important in order to keep roadways in good condition and not allow significant deterioration. An additional component of the maintenance program is funding for ADA compliance for curb cuts, curb returns and deteriorating sidewalks. The major impact on street maintenance is the addition of roads from private development. The Streets division has maintained level staffing through the investment in new, more efficient equipment.

BBB projects will have a significant impact on operating budget requirements. Streetscape maintenance will require an ongoing level of effort to maintain landscaping. Greater consideration is being given to design and maintenance requirements for future streetscape projects to keep maintenance costs as low as possible. The completion of several parks projects constructed in conjunction with the Parks and Recreation bond program require a major increase in the Parks maintenance budget. City Council has determined that any increased maintenance costs associated with the bond projects will be paid for from BBB funds. Staff has balanced construction maintenance responsibilities and funding sources in the Parks and Recreation Bond program.

CAPITAL IMPROVEMENT PLAN

What is a Capital Improvement Plan?

A Capital Improvement Plan (CIP) is a multi-year, long-range study of the construction and/or the acquisition of high cost assets that have an extended useful life usually greater than five years. A long-range plan is needed because of the lead times required to adequately finance, design and/or plan, budget and implement construction or acquisition of the capital project needs of a community.

Planning in one or two-year increments has proven to be inadequate because of the complexity of projects and the public input process, as well as the design time needed for engineering plans, specifications and right-of-way acquisition.

After Council has identified priorities and input has been received from all City departments, the development of the Capital Improvement Plan is completed. This requires coordination between the budget function and engineering due to the impact of constructed capital projects on the operating budget. For example, bond funds might be used to construct a branch library. However, once construction is completed, the library must be staffed, utility bills must be paid and the facility must be cleaned and maintained. Therefore, an effective capital improvement plan should always be viewed in context of its impact on the operating budget. You will find anticipated future operations and maintenance impacts as projects are completed in the Capital Improvement Project section of this budget book.

What does a CIP provide?

- **Cash management capabilities.** The dollars expended on Capital Improvement Plans in jurisdictions experiencing substantial growth or revitalization will often comprise 40% or more of the total budget. By reviewing the sources and uses of funds on a project basis and within the context of the entire CIP, as well as the related cash flows, a jurisdiction can maximize its investment earnings.
- **Debt management.** A CIP allows a jurisdiction to plan the financing requirements and the debt repayment schedule to allow for current and future needs relative to debt service capacity.
- **Expenditure controls.** Funds are expended as they were intended to be spent. The appropriations figure becomes the project management budgets. It is typical for most jurisdictions in their process to budget a 15% to 20% overhead factor to cover engineering and design costs as well as to provide for contingencies.
- **Budgetary controls.** Operating cash flow projections on a project basis serves as a check and balance on a project's progress both in terms of the time schedule and expenditures to date compared with percentage completion.
- **Minimize disruption to citizens.** By looking at the overall impact of the proposed CIP in any given year, the disruption of services or inconvenience imposed by construction activity in a locale can be kept to a minimum. For example, citizen complaints can be minimized by not scheduling the chip sealing of a major arterial street concurrently with ongoing construction on immediately adjacent streets. Additionally, a comprehensive review of multiple projects to ensure adequate coordination can minimize multiple disruptions in a given area.

FY 2017 CAPITAL IMPROVEMENT PLAN

The City's budget for FY 2017 includes capital improvement projects totaling \$109.0 million. Project funding includes the following: \$5.3 million in grants primarily for airport projects, \$39.5 million in general obligation (GO) bonds, revenue bonds and capital leases for FUTS/Open Space Land Acquisition, Flagstaff Watershed Protection Project and other projects that were approved by the voters in the 2004, 2010 and 2012 General Elections. In the May 2004 General Election, the citizens of Flagstaff authorized the City to proceed with ten new projects totaling \$155.2 million. These projects are being phased in over a ten-year period with debt being issued in conjunction with the timing of each project. In the November 2010 General Elections, the citizens of Flagstaff authorized the City to proceed with two new projects totaling \$21.2 million. In the November 2012 General Elections, the citizens of Flagstaff authorized the City to proceed with two new projects totaling \$24.0 million. Each project will be discussed below in its appropriate fund. Project listings are located in the Capital Improvement section of this book.

A Capital Budget and Capital Improvement Plan (Five-Year) are included in the Annual Budget. Detailed project descriptions including location, justification, planning document references, operating impact, funding and expenditure data are provided for all funded projects.

General Government – Eight projects are scheduled for FY 2017 for a total of \$44.0 million. Major projects include the building replacement at the USGS facility, Flagstaff Watershed Protection Project, which was authorized by voters in the November 2012 election, FUTS and Open Space land acquisition, IT Microwave Network, Core Services Maintenance Facility and Court Facility.

Streets/Transportation – The City currently has 664 miles of paved streets, 14 miles of alleys and 14 miles of unpaved streets. Three major programs are funded in the CIP for the City's streets and related infrastructure. These include an annual maintenance program of chip seal and overlay to extend the useful life of the existing street system; a streets/arterial improvement program to bring streets into current standards or widen to meet existing and anticipated traffic flow patterns; and capital projects including Fourth Street Improvements and Traffic Signal Program. There are a total of thirty-two Streets/Transportation projects scheduled at a budgeted cost of \$28.0 million. Transportation Tax funding \$12.2 million, revenue bonds of \$10.0 million and HURF and other revenues funding \$5.8 million.

FUTS Fund – Major projects include Florence – Walnut BNSF underpass and trail, Sheep Crossing trail, Switzer Canyon trail, Fourth Street trail and Pine Knoll trail. Fourteen projects are scheduled at a budgeted cost of \$3.8 million for FY 2017.

BBB Funds – Three categories make up the BBB Funds Capital Projects for FY 2017. Arts and Science includes nine projects at a budgeted cost of \$227,500. Recreation includes eight projects at a budgeted cost of \$1.3 million. Beautification includes seventeen projects at a budgeted cost of \$4.3 million. Major projects include Fourth Street Corridor Improvements, US 89 Medians, Downtown Non-Gateway, Buffalo Park Parking Enhancements, Thorpe Park Adaptive Playground and Surfacing, J. Lively Roof and Locker Room Repairs and Wheeler Park Improvements.

Utilities Fund – Major projects for water, wastewater and reclaimed water include Rio Plant – New Well and Pump house and UV System Replacement, Aging Water Infrastructure Replacement (AWIR), Radio Read Meter Replacements, WWTP Energy Efficiency Program and Aging Sewer Infrastructure Replacement (ASIR). Fifteen water projects, fourteen wastewater projects and one reclaimed water project are scheduled at a combined budget of \$16.5 million for FY 2017.

Airport Fund – Six projects including Master Plan Update, Runway Mill and Overlay Construction, Wildlife Hazard Assessment and Drainage Improvement Design are scheduled at a budgeted cost of \$4.7 million for FY 2017.

Solid Waste Fund - Four projects are scheduled for a budgeted cost of \$2.5 million in FY 2017. The projects include Alternative Liner Test Plots, Truck Barn and LEED Retrofit.

Sustainability and Environmental Management Section - Two projects including improvements to the Picture Canyon trail and Observatory Mesa are budgeted for approximately \$120,000.

Stormwater Fund – Ten projects are budgeted in the Stormwater Fund with a cost of \$3.5 million in FY 2017. Major projects include Phoenix Avenue Culvert Design and Construction, Fanning/Steve's Culvert Construction, as well as Spot Improvements at Cottage and Elden and at Columbia Circle.

CAPITAL PLAN IMPLICATIONS

For a community to continue to grow and prosper, capital improvement needs must be balanced with the burden placed on its citizens to fund them. Therefore, the capital improvement program is evaluated in terms of its impact on a variety of factors such as property taxes, utility rates and entering into other long-term commitments, i.e. affordability factors.

Property Tax: Servicing of general obligation debt over the previous five years is shown in the Community Profile section. The table shows debt as a percentage of assessed and per capita debt. This debt is related to the voter authorized sale of bonds in May 2004 in the amount of \$155.2 million, November 2010 in the amount of \$21.2 million, November 2012 in the amount of \$24.0 million and \$1.1 million remaining from November 1996 voter approved of \$8.2 million.

Utility Rate Structure: The City contracted with an outside agency to review the Water and Wastewater rate structure and provide a new rate modeling program. The most recent rate study was completed in FY 2016. This rate model provides for major capital improvements, additional bond funding and increased operating costs. The rate model demonstrated a need for a rate increase which was approved by City Council with an effective date of July 1, 2016. Rates will increase annually for five years. The next rate study will be completed in FY 2021.

BBB Sales Taxes: The voters approved a 2% BBB tax in 1988 with a ten-year sunset provision. The tax was renewed an additional fifteen years in March 1996 and 2010, extending the tax to March 2028. Capital projects currently underway include streetscape along corridors as well as various recreation and arts and science projects.

Transportation Taxes: In the May 2000 election, the voters approved a transportation tax that started at 0.51% and increased incrementally to 0.601%. The City Council approved an increase of 0.064% in the transit portion of the tax effective September 1, 2001, which increased the tax rate to 0.574%. The City Council approved another increase to the transit tax of 0.027% effective July 1, 2003 which increased the total transportation tax to 0.601%. In May 2008, the voters approved an additional tax increase for transit of 0.12%. In November 2014, voters approved an additional 0.33% tax dedicated for Road Repair and Street Safety projects, raising the total transportation tax to 1.051%.

DEBT

DEBT CAPACITY

The City's legal debt margin demonstrates adequate capacity to complete the capital projects passed with the November 1996, May 2004, November 2010 and November 2012 bond elections. Projects will be initiated over time through issuing new debt within capacity as old debt retires.

CURRENT DEBT POSITION

The City's underlying bond ratings are presently as follows:

Type	Standard & Poor's	Moody's Investor's Service
General Obligation Bonds	AA	Aa2
Revenue Bonds	AA-	Not Available
Certificates of Participation	AA-	Not Available
Improvement District Bonds	Not Available	Aa3

In assigning a rating to bond issuance, the rating agencies analyze several factors to determine an entity's ability to repay its debt. Some of these factors are described in the following text.

Economic factors include measures of growth such as: population and housing demographics; employment base; unemployment rate; competitiveness of services provided by the governmental entity with surrounding jurisdictions; and vulnerability to revenue streams dependent on economy, e.g., sales taxes and delinquency rates on property tax collections. The City is well-positioned because of its location and the diversity of its economic base.

Financial performance factors focus on the entity's ability to maintain a balanced budget regardless of economic circumstances. Recurring revenue streams without reliance on one-time revenue sources, e.g., asset seizure funds or fund balance should support ongoing expenditures. Maintaining a fund balance of 10% of budgeted operating revenues is indicative of sound financial management practices.

Debt factors include indebtedness trends, debt history, current debt burden, and debt repayment schedules. The economic feasibility and need for projects financed with debt are also evaluated, as there is a correlation between perceived benefit received and ability or willingness to repay debt. The history of past voter approved bond authorizations is evaluated as an indicator of taxpayer willingness to repay debt, as well as the amount of overlapping debt imposed on the taxpayer. Development of a long range capital improvement plan is a primary method of planning for future debt needs and is a meaningful way of demonstrating budgetary and fiscal controls.

Administrative factors include the professionalism of the administration relative to budgetary policies and practices, financial reporting, results of independent audits and effective management practices. Debt limitations, tax rate, levy limitations and unused debt margins are also assessed. Focus on management capabilities includes personnel turnover, labor relations and legal and political constraints evident in the organizational structure. Finally, assessment procedures are reviewed and property valuations are trended and analyzed.

Quality of life factors include the physical, environmental, and social/cultural amenities of a community, which enhance the desirability as a place to live and thereby add to the valuation of the tax base.

Legal debt limitations are assessed at 6% and 20% of the assessed valuation of real property. The 20% category includes water, sewer, artificial lighting, parks, open space, recreational facilities, public safety, law enforcement, fire and emergency services and street and transportation facilities. The 6% category includes everything else.

General Obligation Debt			
July 1, 2016			
20% Limitation		6% Limitation	
Assessed Valuation	<u>\$ 684,728,330</u>	Assessed Valuation	<u>\$ 684,728,330</u>
Allowable 20% Debt	\$ 136,945,666	Allowable 6% Debt	\$ 41,083,700
20% Debt Outstanding	(45,192,672)	6% Debt Outstanding	-
Allowable Debt Margin	<u>\$ 91,752,994</u>	Allowable Debt Margin	<u>\$ 41,083,700</u>

DEBT SERVICE

At July 1, 2016, the total actual indebtedness is \$119.8 million. FY 2017 annual debt payments are \$14.8 million. At the start of the fiscal year, July 1, 2016, the City's 20% general obligation debt of \$45.2 million is well below the legal limit of \$136.9 million. The City has no outstanding general obligation debt in the 6% category. Thus, the full allowable debt margin of \$41.1 million is available. The following table illustrates the total actual indebtedness through the life for all currently outstanding debt.

	Principal	Interest	Total
2017	\$ 11,167,754	3,610,228	14,777,982
2018	10,533,706	3,422,189	13,955,895
2019	10,797,792	2,535,563	13,333,355
2020	11,090,991	2,145,903	13,236,894
2021	10,680,786	1,751,234	12,432,020
2022	7,319,575	1,415,552	8,735,127
2023	7,170,203	1,292,396	8,462,599
2024	6,262,650	1,041,911	7,304,561
2025	4,578,715	841,628	5,420,343
2026	4,543,879	676,341	5,220,220
2027	4,643,616	510,183	5,153,799
2028	4,253,946	348,392	4,602,338
2029	2,614,035	220,297	2,834,332
2030	1,004,517	148,915	1,153,432
2031	923,821	106,984	1,030,805
2032	712,047	72,811	784,858
2033	425,000	44,701	469,701
2034	445,000	27,300	472,300
2035	460,000	9,201	469,201
	<u>\$ 99,628,033</u>	<u>20,221,729</u>	<u>119,849,762</u>